

JPRS-CEA-86-060

19 MAY 1986

China Report

ECONOMIC AFFAIRS

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CHINA REPORT

ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

GENERAL SURVEY ON FOREIGN CAPITAL

Beijing TONGJI [STATISTICS] in Chinese No 1, 17 Jan 86 pp 18-19

[Article by Yin Daren [1438 1129 0117] of the Office of the Industrial Survey Leading Group of the State Council: "Issues Relating to the General Survey on Foreign Capital"]

[Text] Article 3 of the "Statistical Law of the People's Republic of China" stipulates that "Chinese-foreign joint ventures, cooperative ventures and foreign-owned enterprises operating in China as well as state organs, social organizations, enterprises, institutions and individual commercial and industrial households shall provide statistical data in accordance with this statute and government regulations. They shall not falsify reports, cover up, refuse to report or make any misrepresentations." All foreign-owned enterprises in China and Chinese-foreign joint and cooperative ventures must mobilize their relevant personnel to actively gather, organize and supply a full range of data under the unified leadership of their managers or directors in accordance with the "State Council Circular Concerning the Successful Execution of the Second National General Industrial Survey," the "National General Industrial Survey Form" and "Instructions on Completing the National General Industrial Survey Form," both issued by the General Survey of China's Industry Leading Group, and regulations in various lists and documents relating to the survey. They must also make sure the requirement that they fill in the forms and submit them to the authorities is fully and accurately complied with within the specified time.

The above regulations provide that statistical data supplied by foreign-owned enterprises and Chinese-foreign joint and cooperative ventures must be handled by government industrial survey agencies at all levels in the strictest confidence.

The expression--enterprises financed with foreign capital--is an umbrella term. At present it includes seven types of economic organization as follows:

1. Foreign-owned enterprises. Financed by a foreign company, enterprise or individual, approved by the Chinese government and registered in China.
2. Chinese-foreign joint ventures. Financed and managed jointly by Chinese and foreign companies, enterprises or individuals. A joint venture must be

approved by the Chinese government and registered in China. It may be a brand new concern involving Chinese and foreign investments or the expansion or conversion funded by Chinese and foreign capital of an existing enterprise in China.

3. Chinese-foreign cooperative ventures. The contract of a Chinese-foreign cooperative venture spells out the investment shares of the Chinese and foreign partners, the formula by which profits will be distributed, each partner's risks and liabilities and methods of operations. A cooperative venture must be approved by the Chinese government and registered in China. The major distinction between a Chinese-foreign joint venture and cooperative venture is this: in a cooperative venture, the partners' investments and labor contributions, among other things, are not considered shares and their rights and obligations are not determined in accordance with the size of their shares but are laid down in the contract. In other words, in a cooperative venture, the distribution of output, income and profits, the apportionment of risks, and management are all based on the contract.

There is another variant of the Chinese-foreign cooperative venture, namely, cooperative ventures in resource exploitation, which at present means essentially companies in off-shore oil exploitation. Since all Chinese-foreign oil development enterprises are in the prospecting stage at the moment and have not embarked on industrial production, they are excluded from the present general industrial survey.

4. Industrial enterprises wholly owned by overseas Chinese, Hong Kong or Macao businessmen. They must be approved by the government and registered in China.

5. Enterprises jointly financed by a Chinese state-owned unit, enterprise or institution, on the one hand, and overseas Chinese, Hong Kong or Macao businessmen, on the other. Apart from joint financing, the two sides also share management, risks, profits and losses. The ventures must be approved by the Chinese government and registered in China.

6. Joint ventures between a Chinese collective unit and overseas Chinese, Hong Kong or Macao businessmen. These are jointly financed and managed by a Chinese collective unit, enterprise or institution, on the one hand, and overseas Chinese, Hong Kong or Macao businessmen, on the other. The partners share risks, profits and losses. The ventures must be approved by the Chinese government and registered in China.

It should be mentioned that arrangements under which a Chinese enterprise undertakes the processing of imported materials for a foreign (or overseas Chinese, Hong Kong or Macao) investor and compensation trade are not considered a Chinese-foreign joint venture. In those cases, there is no need to complete and submit the foreign capital survey forms. In a processing arrangement, a Chinese enterprise processes or assembles raw materials supplied by a foreign (or overseas Chinese, Hong Kong or Macao) businessman. The finished product is the property of the foreign (or overseas Chinese, Hong Kong or Macao) investor and the Chinese enterprises charges a processing fee. The processing of imported materials is only a form of international trade, a type of economic relations with foreign firms in the realm of circulation

which does not affect the nature of the ownership of the means of production of the enterprise in question. Compensation trade involves a Chinese industrial enterprise signing a contract with a foreign (or overseas Chinese, Hong Kong or Macao) firm under which the latter will supply the former with machinery, equipment, materials or patented manufacturing rights. But instead of paying for such purchases with foreign exchange, the Chinese side compensates the foreigner (or overseas Chinese, Hong Kong or Macao businessmen) with products whose manufacture was made possible by the imported equipment concerned or with other products agreed upon by both sides. Compensation trade effects a change in the ownership of the imported machinery or equipment from the foreigner (or overseas Chinese, Hong Kong or Macao businessman) to the Chinese side. The former shall have no right to invest these means of production as capital in the enterprise. Nor will they be able to participate in its management and operations or claim a share of its profits.

All seven types of economic organizations mentioned above are the subjects of the latest general industrial survey. Since enterprises financed by foreign capital are concentrated in special economic zones [SEZ's] and differ from enterprises in the interior in terms of ownership, methods of operations and so on, the general industrial survey on foreign capital should design survey indicators in accordance with the principle of transforming SEZ's into windows to technology, management, knowledge and foreign policy in order to reflect their unique role.

Moreover, as enterprises financed by foreign capital operate within China and make up a part of the Chinese industrial economy, they must be included in the Chinese totality, despite their present minuscule number. For this reason, certain basic indicators which give us a general picture of the overall industrial economy should be included in the foreign capital survey, as long as the data required can be provided by foreign enterprises with or without appropriate adjustments. That way industrial statistical data from different sectors of the economy can be added up and compared. In other words, some indicators in the foreign capital general survey are unique to it while others are common to other sectors in the Chinese economy. We must take a comprehensive approach.

By and large, common indicators include those related to production, sales and inventory; the amount of industrial production equipment and its technical state; the quality of major products; the consumption of raw materials, fuels and energy; inventory and labor, etc. The present general survey on foreign capital has designed two kinds of special indicators. First, under the indicators for registered capital and accumulative capital, an enterprise is required to reveal the amount of investments by the Chinese partner and overseas Chinese, Hong Kong, Macao and foreign investors respectively. Foreign capital is further broken down by country. Correspondingly, the indicator for the distribution of dividends also requires a reporting enterprise to break down the dividends among the Chinese partner and overseas Chinese, Hong Kong, Macao and foreign investors. From these indicators, we can calculate the total amount of foreign capital China has attracted as of late 1985 and identify the countries where most of the foreign capital originates. By analyzing the distribution of dividends, we can further

investigate such questions as foreign exchange balance. Second, as far as engineering, technical and managerial personnel (particularly certain senior personnel like chairman and vice chairman of the board, director and deputy director, chief and deputy chief engineers, chief and deputy chief accountants) are concerned, a reporting enterprise will be required to list the number of Chinese personnel, overseas Chinese, Hong Kong and Macao personnel and foreign personnel to reflect the extent to which qualified personnel have been introduced into the nation.

To make the general industrial survey on foreign capital a success, we should skillfully mobilize the resources of relevant local agencies including the tax agency, industry and commerce administration bureau, banks and the labor agency so that every level is involved and knows what it is responsible for. Once that is accomplished, it is possible to gather data on foreign enterprises comprehensively and accurately. This exercise should give us experience in conducting regular surveys on foreign capital in the future.

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CSO: 4006/892

NATIONAL POLICY AND ISSUES

WAYS TO IMPROVE STATISTICAL ANALYSIS DISCUSSED

Beijing TONGJI [STATISTICS] in Chinese No 1, 17 Jan 86 pp 16-17

[Article by Li Shilin [2621 4258 7792], bureau chief, Anhui Provincial Statistical Bureau: "Learning from Experience to Improve Statistical Analysis"]

[Text] Why conduct statistical analysis? Because statistical agencies must do more than provide data. Through statistical analysis, they can put forward solutions and fulfill their consultative role in order that leaders at all levels promptly grasp the results and problems of the restructuring of the economic system, the national economy and social development. Moreover, party and government leaders at all levels have asked statistical agencies to produce more statistical analytical materials and horizontal comparative analytical data. My experience is that where agencies do a good job in statistical analysis by developing statistical analytical reports that are timely, relevant and involve important policy issues, local leaders are bound to take statistical work very seriously. Our statistical agencies must try to win the regard and support of local leaders on the strength of their work. Third, the need to come to grips with statistical analysis is also dictated by the nature and functions of statistical agencies, as spelled out clearly in Article 2 of the "Statistical Law." It may be said that statistical analysis is a critical aspect of statistics with Chinese characteristics. For all these reasons, there is no alternative but to master statistical analysis. As to how we can go about achieving that, I want to emphasize the following points:

1. Economic bureau chief and reporting bureau chief. The head of a statistical bureau must be familiar with local economic and social conditions and have a comprehensive understanding of the local economy and its strategic plan. He must also think like an economist. As the chief of an economic bureau, he cannot confine his work to mere reporting. In carrying out his reporting function in the future, a statistical bureau chief, wherever he may be located, must shed light on the economic situation besides reporting raw data per se. His economic knowledge, or lack of it, should be an important criteria in assessing his competence.

2. Getting personally involved and issuing orders and instructions. A leader must not content himself with issuing orders and instructions. He must

personally tackle statistical analysis. By "personally tackle," I do not mean that he himself writes every single page of a statistical analytical report. I mean that he assists subordinate comrades to select topics, gather materials and do research and personally participates in the organization of the project to see that it is well executed. A provincial statistical bureau works this way. The director helps the various officers select topics and the office heads take the lead in writing the reports. The office of the director then calls a meeting to revise the reports, but the finalization of the reports is the responsibility of the leaders of the bureau. This approach is highly effective. As long as leading comrades understand economics, they are equipped to play a personal role.

3. Putting special people in charge and specialization. Statistical analysis requires a division of labor in which everybody knows exactly what he is responsible for. The Anhui Statistical Bureau uses a combination of comprehensive offices and specialized offices. In the former, special people are put in charge of comprehensive analysis. Specialized analysis, on the other hand, is primarily the concern of the specialized offices. Judging from the bureau's experience for more than a year, if we are to make statistical analysis a success, we must specially assign statistical analysis to a number of people in comprehensive offices who will keep a constant eye on what party and government leaders at all levels are thinking in light of the party's shifting central functions and what information they need, and help the bureau leadership come up with ideas and select topics. Only thus can we produce statistical analytical reports that are topical, relevant and involve important policy issues efficiently and expeditiously.

4. Strengths and weaknesses. The strength of statistical agencies is that we possess a wealth of statistical data unmatched by that of other agencies. As for weaknesses, we have less current case studies than other line agencies. How can we exploit our strength to offset our weakness? To my mind, these are the major methods. First, we should refine the statistical data we have in hand to improve its utilization rate. This potential must be tapped to the full. Second, existing statistical data sometimes cannot meet the policy-making needs of leaders at various levels as well as those of different social quarters. Therefore we must delve deeply into the grassroots and step up research and investigations to obtain first-hand materials. Survey methods such as sample survey, representative survey and targeted survey can also be used to obtain data to make good our weakness. The provincial bureau wrote a number of analytical reports this year, most of which have been adopted by the leaders and relevant agencies. But when we got around to discussing and examining the materials in each report, we were invariably struck by the absence of current, representative materials and the superficial treatment some topics received. The reports barely scratched the surface, giving the skimpiest of information, and contained little in the way of detailed analysis.

5. Quantity and quality. To improve the quality of statistical analysis, we must take pains to do the following for a start. First, topic selection should stress three characteristics, namely, that it be timely or topical and relevant and involves important policy issues. Second, progress analysis must go hand in hand with functional analysis and comprehensive analysis. When

progress analysis has been put on a sound footing, we should do more special analysis. Localities with the necessary resources should develop more statistical analytical materials reflecting macroeconomic conditions. Third, there should be a shift in the substance of analysis from growth-related matters to those that mirror economic results. Fourth, the old emphasis on local conditions should be reduced in favor of horizontal comparative analysis. Fifth, statistical analysis essentially has been of the type which records the past. Today we must diversify into predictive analysis. As far as the provincial bureau is concerned, only by drastically trimming the amount of "after-the-event" statistical analysis can it devote its resources to improve the standard of statistical analysis.

In stressing statistical analysis, we are not suggesting that basic statistical work can be ignored. Statistical data is the bread and butter of statistics and a prerequisite for statistical analysis. Without accurate data, decent statistical analysis is out of the question. We must balance the relations between the two and not over-emphasize one at the expense of the other.

6. Comparison and exchange. To promote the development of statistical analysis, year-by-year comparative studies are indispensable. But we should be even more concerned to produce high-quality data during the year. The comprehensive office of the provincial bureau should take it upon itself to disseminate horizontal and vertical economic information without delay, conduct studies on certain topics to satisfy reference needs and provide individualized guidance to expedite the development of this aspect of its work.

7. The pioneer and the professional. In accordance with the party's cadre policy in the new era, we must nurture and promote a host of statistical cadres who are the innovative type. Politically, these cadres must firmly adhere to the party's line, principles and policies since the 3d Plenum of the 11th CPC Central Committee, keep in line with the Central Committee politically and insist on seeking truth from facts. Second, they must apply themselves to studies, be modest, prudent, honest and upright, cooperate with other comrades, have the courage to overcome difficulties and innovate and try in every possible way to effect a breakthrough in statistics. Third, they absolutely must not imitate others' actions and follow the crowd thoughtlessly. Nor can they be boastful types who forsake their principles. As professionals, they must have extensive learning and understand various aspects of the national economy and society. They must have a brushing knowledge of all disciplines, including logic, literature and history, and regularly update their statistical expertise. In addition, I must emphasize that statistical comrades, especially statistical analytical comrades, must have good writing skills; they must be able to write coherent sentences in clear language with correct punctuation.

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CSO: 4006/892

NATIONAL POLICY AND ISSUES

MINISTER ASSESSES PROBLEMS IN CURRENT ECONOMIC WORK

HK211313 Beijing LIAOWANG in Chinese No 14, 7 Apr 86 pp 9-10

[Article by Lu Dong [0712 2639], minister in charge of the State Economic Commission: "Several Problems To Be Noted in Current Economic Work"]

[Text] Doing a good job in our economic work this year, the first in the Seventh 5-Year Plan, is of great importance. Since spring began, spring farming has been gradually carried out from the south to the north. In the first 2 months, the industrial output value rose by 3.4 percent over the same period of last year. Production of major raw materials and marketable products increased and there was a greater increase in electrical energy production, which was 7.5 percent more than in the same period last year. The market was brisk and stable and the supply during the Spring Festival and the Lantern Festival was guaranteed. Tasks for transport and communications work were comparatively well fulfilled. On the whole, the situation was good.

Last year, by adopting macroeconomic control measures, the excessive rate of growth that had appeared in industrial production was gradually controlled. As was expected, the growth rate for the first 2 months of this year was lower than in the same period of last year. However, there are great differences between different areas. The growth rates of 11 areas were lowered than the national average, and some of these areas even had a drop compared with the same period of last year. There are many reasons for this. We must strengthen investigations and studies and conscientiously solve relevant problems.

During my investigation in Shandong recently, I learned something about the situation, and I would like to offer my opinions on the above problems.

First, it is necessary to continue to do a good job in various fields, with raising economic returns as the focal point. At present, some localities and enterprises are apprehensive that their income may be affected and their expenditure and the supply in the market may not be guaranteed if their production is not speeded up. What they are thinking is correct. However, they must keep calm and must prevent the reappearance of such phenomena as manufacturing in a rough and slipshod way and neglecting economic returns in order to pursue high speed. In this respect, we have had profound lessons. As a matter of fact, the economic returns of some enterprises dropped in the first 2 months. We must be alert about this. At present, in order to promote industrial

production, it is necessary to center our efforts on raising economic returns, integrate economic returns with speed and stamina, and greatly increase the production of marketable, name-brand, and high quality products. It is necessary to strengthen enterprise management and make continuous efforts to improve product quality and reduce material consumption.

Second, it is necessary to firmly and unswervingly carry out experiments on implementing the system of the plant director (or manager) assuming full responsibility. The decision of the 3d Plenary Session of the 12th CPC Central Committee on reform of the economic structure clearly points out that this system should be practiced in enterprises. At present, experiments in this respect are being carried out in more than 27,000 enterprises throughout the country. The general situation is good. Practice shows that implementing the system of the plant director (or manager) assuming full responsibility is conducive to changing the state of being slow in making decisions, low efficiency, and no responsibility in directing production, to a clear division of work between the party leadership and enterprise administration, to strengthening ideological and political work, and to strengthening democratic management and the position of the staff members and workers as masters of their own houses. We must resolutely implement the decision of the 3d Plenary Session of the 12th CPC Central Committee and the 10 regulations of the State Council on expanding the decisionmaking power of the enterprises, and firmly and unswervingly carry on the experiments on implementing the system of the plant director assuming full responsibility. Plant directors of the experimental enterprises have the authority to appoint and remove lower-level cadres. Of course, when this is done, they must consult with the masses and follow the mass line.

We must also realize that the implementation of the economic responsibility system in the enterprises as soon as possible is a great matter that concerns the fulfillment of this year's production plan. At the end of last year, due to the change in the wage system, some bonuses were appropriated. This had quite an influence on the implementation of the economic responsibility system in enterprises. According to the current regulations, the following four measures seem to be feasible: 1) endeavoring to raise economic returns so that more profits may be retained after tax payment; 2) making great efforts to reduce material consumption so that a great quantity of material resources can be saved for the state; the staff members and workers may also be rewarded for this; 3) increasing exports to earn more foreign exchange so that the enterprises producing export goods may also get more bonuses from this, and 4) allowing a certain amount of funds needed for wage adjustment this year to be included in production costs. If these measures are taken, it will be possible for us to solve the problem of funds while implementing the economic responsibility system in enterprises. The leaders at various levels must explain all these favorable conditions to the masses of staff members and workers so as to pool their wisdom and efforts and give full play to the role of the economic responsibility system. At the same time, it is also necessary to prevent the occurrence of phenomena such as appropriating the funds for developing production and reducing those for technological transformation used for bonuses.

Over the past few years, since mandatory planning has gradually been reduced while guidance planning has been strengthened, and since both purchases and

sales through the market have been greatly promoted, the economy as a whole has been enlivened. However, some unhealthy trends have appeared at the same time, and these should be resolutely checked. In the current party rectification and examination carried out in grassroots enterprises, since a clear line of demarcation is now drawn between normal business activities and unhealthy trends, some salesmen and purchasing agents dare not carry out their work actively for fear of making mistakes. This is also a major problem affecting the current production. Before unified regulations are worked out for the whole country, all provinces can work out some regulations in light of their different conditions to distinguish between the normal business activities of the enterprises in accordance with the demand of the planned commodity economy and unhealthy tendencies and between the requirements for party and government organizations and those for economic entities. In short, it is necessary to guide the enterprises to develop healthily while at the same time making things favorable for opening up and reinvigoration, so as to meet the demands of the new situation.

The insufficient circulating funds problem is a prominent issue facing the enterprises in organizing production. The main reason is that although production has developed, the circulating funds have not increased accordingly. Of course, some problems, such as letting the funds lie idle and being in arrears with repayment of loans, have been caused due to improper management. In order to solve this problem, the state has adopted measures to appropriately increase the circulating funds. It is necessary to support those enterprises which are producing marketable products and support the production of products needed by the market. But for those which have been in arrears with repayment of debts for a long time, the bank must help them settle accounts. Meanwhile, the enterprises must also strengthen management over funds and use them in a reasonable way so that idle funds may be reduced and circulation may be speeded up.

A big problem in organizing production this year is to enhance the capability of enterprises in producing export goods so that more foreign exchange may be procured. In order to encourage exportation, the state has worked out some policies and measures. They have been widely accepted by the enterprises. It seems that when these policies are well implemented, the initiative of local and productive enterprises in producing more export goods to procure foreign exchange can be further mobilized. The problem at present is how to promote relations between the production enterprises and the foreign trade enterprises. While having different tasks in their work, both sides must support each other and exchange information with each other in order to take coordinated actions to promote foreign trade. The former should promote production and pay attention to quality and the latter should grasp marketing and promote business. Under the principle of mutual benefit, both sides should promote their horizontal associations. If conditions allow, experiments can be carried out in some areas in this respect so as to acquire experience.

In agriculture, it is necessary to pay close attention to pig-raising at present. According to a report by 38 information points in Shandong Province, due to a sharp increase in the prices of corn and dried sweet potatoes, both pig-raising and alcohol production have been affected. Recently, in the countryside of Yantai, Qingdao, and other cities, there appeared a trend of killing sows, but relevant measures have already been taken to stop this.

Of the 113 breweries and 2 alcohol plants in this province, some have had to cease production due to a lack of raw materials. This merits our serious attention, for it may bring about harmful effects on next round of pig-raising as well as chemical and pharmaceutical production.

In order to promote the economy and reform, the state has worked out some new policies and measures since beginning of this year, such as vigorously encouraging horizontal economic associations of the enterprises; encouraging the production of chemical fertilizer by exempting them from taxation, reducing prices, and offering subsidies; encouraging export and procuring more foreign exchange; giving more rewards for conserving energy resources and raw materials; increasing domestic oil supply; and appropriately easing the money market. These policies and measures are favorable for organizing production this year. All areas and departments must firmly grasp the implementation of policies and strengthen investigations and studies so as to effectively help the enterprises solve their problems.

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CSO: 4006/993

PROVINCIAL AFFAIRS

WUHAN MAYOR GIVES GOVERNMENT WORK REPORT

HK240118 Wuhan CHANGJIANG RIBAO in Chinese 19 Mar 86 pp 1, 2

[Government work report given by Wuhan Mayor Wu Guanzheng at the fourth session of Seventh Wuhan City People's Congress on 10 March 1986--passages within slantlines published in boldface; passages within double slantlines published in italics]

[Text] Deputies:

Entrusted by the City People's Government, I am going to deliver its work report for your examination and discussion.

I. [Roman one] On the Work in 1985

In 1985, we followed the CPC Central Committee's decision on the reform of the economic, scientific, technological, and educational systems and the instructions given by central leading comrades when they made an inspection visit to Wuhan. Under the leadership of the provincial CPC Committee and people's government and the city CPC Committee and the guidance of the State Commission for Restructuring Economic System and other relevant ministries and commissions of the State Council, and in accordance with the resolution on government work by the third session of the Fourth People's Congress of our city, together with the people all over our city, the city government always gave first priority to the reform, persisted in grasping the two civilizations simultaneously, and consolidate and developed the fine situation that has emerged since the 3d Plenary Session of the 11th CPC Central Committee. The comprehensive economic structural reform developed while being consolidated, our enterprises were invigorated, the role of the regulation of our market mechanism was given better play, vertical economic relations were greatly strengthened, the diverse functions of our city were brought into increasingly clear play, and the requirements for the "victory of the initial battle" was in the main satisfied. Our national economy developed steadily and we have already overfulfilled the Sixth 5-Year Plan in an all-round manner. The construction of our city made relatively quick progress, our market was prosperous with a plentiful supply of materials and goods, and our people's living standard continued to improve. Our construction of socialist spiritual civilization continued to be intensified and new ideas, thoughts, and lifestyle emerged. The

people all over the city were high spirited and vigorous, carried out struggle in unity, persisted in carrying out the reform, and had increasingly rising initiative to carry out the four modernizations program. In short, the year 1985 was a year in which the development of our city's comprehensive economic structural reform deepened; in which our national economy achieved sustained, harmonized, and steady development; in which the people's living standard improved; and in which new progress was made in building our spiritual civilization.

/1. A brave first step was taken in our reform./ In carrying out our reform last year, our city implemented the principles of enlivening our economy at home and opening up to the outside world and regarded as its major tasks establishing a socialist economic system filled with vitality and vigor, vigorously developing the planned commodity economy, and giving full play to the diverse functions of the city. It opened wider the gates of its three towns, invited people in other areas to come to our city to do business and took the initiative to send people to other areas to widely develop horizontal economic relations, arranged the work to unblock the circulation between urban and rural areas and between our city and other cities, and developed the economy on Chang Jiang-Han Shui Plain and the Chang Jiang Valley. While making breakthroughs in unblocking the circulation of goods between urban and rural areas and between and among cities, the city enlivened its enterprises, gave impetus to the development of its production, and augmented its economic strength. On the basis of enlivening its commodity market, it vigorously developed its tertiary industry and heightened the city's attraction, influence, and capacity of comprehensive service. While applying economic levers in an all-round and coordinated manner and paying close attention to microeconomic stimulation, it improved its macroeconomic control. It paid attention to the continuity of its reform and to making various measures of reform coordinate with one another and form a full set and thus pushed forward the reform, made the reform develop relatively healthily, and achieved results better than expected. The above was mainly reflected in the following:

//Vigorously develop horizontal relations and promote the development of the commodity economy.// Developing horizontal relations is an important task in giving play to the functions of our city and is also an objective demand resulting from the development of our commodity economy. In the light of our city's economic and social development strategy and its position in the country as a whole, our city decided to develop "five levels" of horizontal relations to combine our urban areas with rural ones, serve the whole province, facilitate the circulation of commodities in Central China, and carry out cooperation at home and abroad. Our enterprises and their responsible departments have all widely developed horizontal economic relations outside the enterprises and outside the city in the light of the needs in their production and operation. The city has set up the Changjiang-Hanshui Economic and Technological Coordination Association together with other cities, developed cooperation with the cities along the Chang Jiang, and sent people to make inspection tours and discuss projects of cooperation and counterpart aid in Qinghai and Sichuan Provinces. Over the past year,

our industrial enterprises have organized 648 combines and cooperative networks in which over 2,000 enterprises participate. In our city's metallurgical industrial sector, 11 enterprises were formally merged with the Wuhan iron and steel complex in order to give play to the large enterprises financial and technological advantages and positive role in promoting the development of local metallurgical industry. Our city has signed contracts for over 1,900 projects of cooperation with other areas in the country to draw in over 167 million yuan of funds and over 2,600 people of various talents from them. It has also employed a number of retired foreign specialists to work in Wuhan. The scope of recruitment has now been extended from West Germany to Japan, the United States, Canada, and Britain and over 1,000 specialists had been recruited from these countries. As our horizontal economic relations developed, the circulation channels continues to become unblocked. The city has reorganized and perfected its wholesale commercial system, stimulated its market of consumer goods, and initially established a wholesale network that links its urban and rural areas. It gradually opened up its market of means of production. On the basis of the four trade centers for metals, chemical industrial goods, mechanical and electric products, and building materials and the coal warehouse that it had already established, it set up six other markets of means of production related to timber, vehicles, and other goods and thus initially set up its network for the circulation of materials and goods. It continued to expand and perfect its technological market and one by one set up four markets for the trade of comprehensive and professional technology. Even in its suburban counties, firms that dealt in technological commodities were set up and the volume of the trade in technology continued to increase. At the same time, it vigorously opened up its labor service market and quickly developed the various forms of paid service such as the provision of labor service by contracts of tenders and all-round responsibility contracts. Rural construction teams consisting of 120,000 people came to Wuhan from other areas to undertake responsibility contracts of capital construction and tasks of maintenance. Our city's construction and designing contingents also left our city to provide service for 52 counties and cities in 10 provinces and the 4 special economic zones. The city also strived to open up its funds market and experimented in raising funds inside its enterprises and from among the community, thus promoting its economic and social development.

//Vigorously develop horizontal relations and promote the development of the commodity economy.// Developing horizontal relations is an important task in giving play to the functions of our city and is also an objective demand resulting from the development of our commodity economy. In the light of our city's economic and social development strategy and its position in the country as a whole, our city decided to develop "five levels" of horizontal relations to combine our urban areas with rural ones, serve the whole province, facilitate the circulation of commodities in Central China, and carry out cooperation at home and abroad. Our enterprises and their responsible departments have all widely developed horizontal economic relations outside the enterprises and outside the city in the light of the needs in their production and operation. The city has set up the Changjiang-Hanshui Economic and Technological Coordination Association

together with other cities, developed cooperation with the cities along the Chang Jiang, and sent people to make inspection tours and discuss projects of cooperation and counterpart aid in Oinohai and Sichuan Provinces. Over the past year, our industrial enterprises have organized 648 combines and cooperative networks in which over 2,000 enterprises participate. In our city's metallurgical industrial sector, 11 enterprises were formally merged with the Wuhan iron and steel complex in order to give play to the large enterprise's financial and technological advantages and positive role in promoting the development of local metallurgical industry. Our city has signed contracts for over 1,900 projects of cooperation with other areas in the country to draw in over 167 million yuan of funds and over 2,600 people of various talents from them. It has also employed a number of retired foreign specialists to work in Wuhan. The scope of recruitment has now been extended from West Germany to Japan, the United States, Canada, and Britain and over 1,000 specialists had been recruited from these countries. As our horizontal economic relations developed, the circulation channels continued to become unblocked. The city has reorganized and perfected its wholesale commercial system, stimulated its market of consumer goods, and initially established a wholesale network that links its urban and rural areas. It gradually opened up its market of means of production. On the basis of the four trade centers for metals, chemical industrial goods, mechanical and electric products, and building materials and the coal warehouse that it had already established, it set up six other markets of means of production related to timber, vehicles, and other goods and thus initially set up its network for the circulation of materials and goods. It continued to expand and perfect its technological market and one by one set up four markets for the trade of comprehensive and professional technology. Even in its suburban counties, firms that dealt in technological commodities were set up and the volume of the trade in technology continued to increase. At the same time, it vigorously opened up its labor service market and quickly developed the various forms of paid service such as the provision of labor service by contracts of tenders and all-round responsibility contracts. Rural construction teams consisting of 120,000 people came to Wuhan from other areas to undertake responsibility contracts of capital construction and tasks of maintenance. Our city's construction and designing contingents also left our city to provide service for 52 counties and cities in 10 provinces and the 4 special economic zones. The city also strived to open up its funds market and experimented in raising funds inside its enterprises and from among the community, thus promoting its economic and social development.

//An important step was taken in the city's price and wage reforms.// In accordance with the arrangement of the central authorities, in our price reform we adhered to the principle of "combining decontrolling prices with readjusting prices and making progress slowly step by step," and looked around before taking a step forward. In 1984, we decontrolled fish and vegetable prices, and in 1985, we decontrolled prices for the purchase and sale of pork, readjusted grain purchase and sales prices and the prices of eggs and some other products in our rural areas, and raised the prices for short distance railway transport. In carrying out our price reform, we took into account the city's financial capacity to undergo the reform,

the enterprises' capacity to absorb the price rises, and the masses of people's endurance of price rises, and paid attention to controlling the general price level. The city adhered to the principle of both relaxing and exercising its control over prices and combining relaxation of control with exercise of control, earnestly strengthened administration and guidance, and kept the city's price index within the range stipulated by the central and provincial authorities. It imposed state unified prices on the necessities for the people's livelihood that are vital to our state's plans and people's livelihood and the commodities in short supply in the market. It acted very prudently in readjusting the prices of the important commodities and noncommodity charges that had widespread impact, that were relatively sensitive and that were apt to cause fluctuations in our market. In regard to the goods for which prices rose sharply, the city restricted their sale prices, or sold them at prices lower than purchase prices and subsidized the losses of the sellers. In regard to the commodities for which the prices were decontrolled, we implemented regulation by the market to strike a balance between supply and demand. We allowed free pricing of goods in short supply. We established a price administration contingent consisting of both full-time and voluntary workers, promulgated provisional regulations to strengthen price administration in our market, and frequently checked the prices of goods. At the same time, we paid attention to giving play to the role of our state commercial sector as the main channel of commodity circulation, adhered to the principle of "making preparations to decontrol the prices of quite a few kinds of goods and to decontrol them one by one," grasped the sources of supply, readjusted the quantities of supplied, and restrained price rises. Our price readjustment promoted the development of production, the people's income rose. The per capita income of the families of our urban residents increased quicker than price rises. In 1985, the per capita monthly income for living expenses of the families of our city's urban residents reached 60.53 yuan, an increase of 20.6 percent or of 8.6 percent after deduction for inflation over the preceeding year. We increased the funds allocated for subsidies and relief for low-income families and people who relied on the society for their livelihood, readjusted the standards for their food, and thus increased the subsidies for their living expenses. The price reform in the city as a whole made smooth progress. Clear achievements were scored in the reform and our price system tended to be gradually straightened out. While carrying out price reform, we conducted wage reform. In the latter half of last year, we began to implement a new wage system in our state organs and institutions and thus gradually solved the problems of remuneration not being linked with the nature of the work and work duties not matching the posts. Experiments with reform in the wage system in our enterprises were also underway.

//We intensified our indirect control and continued to combine macroeconomic control with microeconomic stimulation.// Last year, we applied economic and legal means to manage our economic work and adopted necessary administrative means to regulate the operations of our economy. In this way, we made conscientious efforts to improve our macroeconomic control. We established coordinated mechanisms to apply economic levers in an all-round

manner. Every month, we held an economic activities analysis meeting to make a comprehensive analysis of the issues of macroeconomic control and microeconomic stimulation throughout the city and find points on which to jointly focus our efforts and give play to the regulatory role of our economic levers and thus not only controlled the city's economic activities within the scope allowed by our macroeconomic control, but also enabled the city's economic activities to acquire increasingly great vitality on the basis of the existing foundation. In controlling the scale of investment in our fixed assets, we implemented a responsibility system geared to leaders, ceased to give any approval to new projects, adopted measures such as assigning all-round responsibility for the amount invested in a project, and thus freed funds to ensure the construction of key projects. In the credit sphere, we provided credit strictly in accordance with the mandatory targets, readjusted our loan composition, organized interbank lending among our banks, improved the economic results of employing credit funds, and basically satisfied the requirements for effectively and satisfactorily controlling our credit. We strictly kept foreign exchange spending within the amounts approved for the projects, abolished a number of projects that lacked the necessary conditions and for which we did not have enough foreign exchange to carry out and thus eased our foreign exchange shortage. We controlled the total volume of our consumption funds, appointed people to specialize in passing down our instructions, flexibly readjusted spending by various units, refrained from pursuing "uniformity," strengthened our auditing supervision, and thus succeeded in controlling our consumption funds within a rational range. We reduced the readjustment taxes for our large and medium-sized enterprises which earned high profits but were allowed to retain only a small percentage of their profits, raised the rate of our depreciation of fixed assets, and thus created external conditions for stimulating our enterprises. We restricted the supply of electricity, fuel, and materials for the enterprises that produced poor quality products or ordered them to suspend their production and reorganize and thus promoted the readjustment of our product mix. We promulgated 46 economic rules and regulations, which played a relatively satisfactory role in improving our macroeconomic management. While gradually establishing a system of indirect control, we tried to separate the functions of our government from those of our enterprises and thus changed the functions of our government in administering our economy. Since the establishment of our city commerce committee, we reduced the levels of management, severed the direct economic relations between our government departments and our enterprises and thus intensified the administration over commerce and markets throughout our city. The city machine-building industry administration switched from administering enterprises to administering the industry, from managing enterprises as its subordinates to exercising unified administration, and from exercising microeconomic control to exercising macroeconomic control and thus scored initial achievements. The first Bureau of Light Industry in our city took the lead in reforming the administrative companies under it and thus reduced the levels of administration and stimulated our enterprises.

//We continued to readjust our rural production mix and promoted the development of our rural production.// The suburban counties of our city acted in accordance with the principle of "serving the city, making rural areas rich, stimulating the market, and providing conveniences for the mass of people," proceeded from reality, maintained the order of priority-- first, cultivation; second, animal husbandry; and third, processing industry; returned farmlands to lake and forest areas in a planned manner, relatively sharply increased the area of land for diversified undertakings such as forestry, fruit production, and fishery, vigorously developed fish farming and animal husbandry, and gradually harmonized the major proportional relations in our agriculture. We made relatively quick progress in developing our secondary and tertiary industries and a new situation in developing agriculture, forestry, animal husbandry, sideline undertakings, and fishery in an all-round manner and coordinated agriculture, industry, commerce, transport, and construction operations began to emerge.

//New progress was made in the reform in our scientific, technological, and educational systems.// We focused the reform on our scientific and technological funds allocation system, implemented the practice of charging those who used the achievements of scientific and technological research fees, opened up a technology market, combined scientific research with production, heightened our enterprises' capacity for assimilating and developing technology, reformed the system for managing professional technological cadres, and established city and district scientific and technological development funds and corresponding procedures for managing these funds. Concerning the reform in our educational system, we established a new system of leadership and administration over our educational undertakings, gave play to the initiative of all sectors in developing education, continued to readjust the composition of our secondary education, quickly developed our vocational and technical education, and scored achievements in reforming local tertiary education and adult education.

//The pace of reform accelerated in our city districts.// As our economic structural reform deepened, we developed our financial powers and set up financial systems at the district level. We expanded the power of our district governments in administering their retail commercial sectors and in setting up additional retail shops. We developed some of the power for administering urban construction and initially set up a dual-level responsibility system consisting of the city and district levels. We continued to give play to the initiative of our city districts in building and administering the city and promoted the construction of our spiritual civilization and the development of the economy in our districts and streets.

We also scored substantial achievements in other fields of reform.

/2. The reform gave impetus to sustained, stable, and harmonized development of our national economy./ Our city's aggregate social product amounted to 21,234,000,000 yuan, 14.9 percent more than that in 1984; its GNP was 10.2 billion yuan, 12.2 percent more than that in 1984; and its gross national income was 7.867 billion yuan, 13 percent more than in 1984.

//Our city achieved a sustained and stable growth in industry.// In 1985, the city's gross industrial output value (including the output value of villages and production teams) amounted to 16.312 billion yuan, an increase of 14.6 percent compared with last year; the realized before-tax profits of the industrial enterprises owned by the whole people that are accounted for in our budget, totaled 2.384 billion yuan, an increase of 27.6 percent; and the tax payments and profit delivery totaled 660.18 million yuan, an increase of 17.7 percent. Product quality improved and our city's industrial products won 2 gold medals and 12 silver ones. Among these products 62 were designated by ministries, and 135 were designated by the province, as fine quality products.

//Our communications and telecommunications and post undertakings continued to develop.// The volume of passenger freight totaled 8.95 billion person-kilometers, a rise of 12.3 percent over last year; and that of cargo freight totaled 38 billion metric tons-kilometers, a rise of 6.7 percent. The number interprovincial passenger road transport lines rose to 37 and both the number of trips and the number of passengers crossing the provincial border daily doubled compared with last year. The volume of post and telecommunications business rose by 18.8 percent compared with last year.

//A good harvest was reaped in our agriculture.// Our grain output was 1,624,000 metric tons, that of cotton was 44,800 metric tons, and that of oil-bearing crops was 49,850 metric tons, respectively being close to or surpassing historical highs. The output of fresh fish totaled 55,000 metric tons, setting a new record. Both the output of milk and the number of hogs slaughtered rose relatively sharply. The gross agricultural output value was 1.209 billion yuan, 7.6 percent greater than in 1984.

//Our market prospered and our foreign trade expanded.// The retail sales of social commodities totaled 5,089 billion yuan, a rise of 32.9 percent compared with 1984. The retail sales of food, clothing, and daily use articles all rose. Trade was brisk in our market fairs in our urban and rural areas, the supply of fresh and live commodities rose in our market and their quality improved. Our city had trade relations with over 30 countries and regions. It earned \$52.64 million in foreign exchange through exports, concluded contracts for the use of \$21.59 million in foreign capital, and thus took an initial step toward becoming an open port.

//Local finances were balanced with some surplus.// Last year, we overcame the malpractice of overstating expenditures, reduced the city's financial burdens, and solved the problems left over from the past. The actual revenues of our local finances reached 2.389 billion yuan, an increase of 27.7 percent compared with 1984 or 17 percent in terms of items. Actual tax revenues totaled 1,902,890,000 yuan, an increase of 20.9 percent in terms of comparable items and much greater than the increase in production. The city withdrew 650 million yuan of currency from circulation, setting a new record in this sphere.

/3. People's living standards continued to improve on the basis of our economic development./ In 1985, the per capita wage income of our city's urban staff and workers rose by 15 percent over 1984. The per capita income of the rural people in our suburban counties rose by 38 yuan over 1984. The city provided 53,644 job opportunities to urban job-awaiting people. Urban people's bank deposits totaled 1.557 billion yuan, 37 percent more than in 1984; while the rural people's bank deposits totaled 230 million yuan, 41.7 percent more than in 1984.

While the income of our residents' families was rising, their living and housing conditions also improved. The city government basically finished doing the 22 things that it promised to do in 1985. It initially completed the construction of the Yellow Crane Tower and the Wuhan Zoo and opened them to the public. It began construction of eight new urban residential areas and projects to transform nine old urban areas. The area of residential construction completed in the city totaled 2.03 million square meters. A group of tall buildings were built one after another. Some of the 10 planned commercial streets began to take shape. The construction of all seven roads we planned to build was completed. The two tunnels leading to Yue Hu and the Yellow Crane Tower in Hanyang and the two pedestrian overpasses on Jiangnan Road and Liuduqiao were finished. Our city initially transformed 292 small streets and started the second stage of the project to harness the Huangxiao He. The project to deal with the pollution of the Dong Hu was underway and pollution was overcome in 218 rivers. The city established 11 new bus and trolley bus lines, and built or rebuilt 86 public toilets and 251 septic tanks. It planted 770,000 trees in its urban areas and solved the problem related to the supply of potable water for 320,000 rural people. Through the efforts made in the Sixth 5-Year Plan period, the city in the main eased the water supply situation in its urban areas.

/4. Our city made new progress in building its spiritual civilization./ It carried out diverse forms of education in ideals all over the city, launched the campaigns of "Love Wuhan, build Wuhan, and reinvigorate Wuhan," "Discover bright spots of communism around us," and striving to become "civilized citizens." It vigorously publicized the deeds of the heroic Sanmi Factory group and of a large number of advanced model workers, and thus aroused our people's enthusiasm in persisting in carrying out the reform and dedicating themselves to the four modernizations. In the light of reality, our city carried out education in the situation and policies among the masses of people and thus ensured and promoted the smooth development of its reform and economic construction. The activities of "five stresses, four beauties, and three loves" deepened and scored heartening achievements. A section of Jiangnan Road was designated "National Civilized Commercial Street" by the Ministry of Commerce. The first city hospital, the central department store and 22 other units were designated as civilized units by the provincial authorities. Jingnan Restaurant, Shouyi Road Primary School, Zhongshan Park, and 111 other units were designated as city-level civilized units. The leading groups at various levels continued to correct their guiding thoughts over their vocational work and to restore and develop the party's fine tradition and to some extent overcome the

malpractice of "pursuing money in doing everything," failure to obey orders or carry out bans, and weak and lax leadership. We brought a turn for the better to the general mood of our society, and substantially improved our public order and security. We openly handled typical cases, tackled evil phenomena in our society in an all-round manner, reduced the crime rate, controlled the gambling and feudal superstitious activities, resolutely prohibited pornographic video tapes and unhealthy tabloids, and relatively greatly changed the mental attitude of our masses of people.

//Our cultural, educational, and medical undertakings made new progress.// Our literature, art, press, and television and radio broadcasting undertakings continued to prosper. The city's four-level cultural network initially took shape and the cultural life of our masses of people was enriched day by day. A group of fine plays and operas such as "Prison Guard Redresses Wronged Case" were well received. Our city's social sciences continued to develop and the quality of education gradually improved. The scale of recruitment for its secondary vocational and technical schools enlarged, the ratio of the number of students these schools recruited to those recruited by ordinary middle schools was 0.8 to 1. Pre-school education was provided to 90 percent of the children; 76 percent of the graduates from our junior middle schools this year entered various kinds of senior middle schools; and 46.3 percent of the graduates from our senior middle schools entered various kinds of colleges and universities. Local general higher education, teachers education, and adult education continued to develop. Over the past year, the city has raised funds through various ways to improve its school facilities, repaired 199,000 square meters of dangerous school buildings, built 45,000 square meters of new school buildings. In the medical and health sectors, the city vigorously carried out a mass public health movement centered on eliminating harmful insects and preventing diseases. As a result, the rate of contagious diseases continued to drop. Our hospitals at various levels lengthened their hours for clinic services. The number of hospital beds in our city rose by 1,074, and that of family hospital beds rose by 571. All these eased the shortage of medical services for the masses of people. Planned parenthood scored relatively satisfactory achievements and our city basically controlled the growth of its population. It developed extensive sports activities and did relatively well in national sports contests.

New achievements were also scored in our work concerning weights and measures, standardization, civil affairs, foreign affairs, overseas Chinese affairs, cultural relics, archives, nationality affairs, religious affairs, militia, and people's air defense.

Their achievements scored in reform and construction last year were the fruits of the hard labor and great efforts of the people throughout our city. In scoring these achievements the support and supervision of the standing committees of and the deputies to the people's congresses at all levels and the concern shown by the CPPCC Committee and people of various circles were all indispensable.

When we review our work in 1985 we must soberly see that there were quite a few problems and difficulties in our work. The efficiency of our government offices was not satisfactory and we failed to satisfactorily solve the problems of delay, shifting responsibility, and unsound work style. Quite a few of our enterprises were of poor quality and management. Their management means were backward, their products were of poor quality and lacked competitiveness, their consumption of materials and goods was excessively high, and no radical turn for the better was brought to their low economic results. Our textile, leather and clothing industries were still in difficulty. The foundation of our agriculture remained weak and its production conditions were relatively poor. Our work to serve rural areas still fell behind the demand resulting from the development of our commodity economy. Our communications and transport continued to fail to satisfy the demand resulting from the development of our commodity circulation. We improved our urban infrastructure to some extent, but it still fell behind the development of our production. There were relatively glaring problems of poor management, construction in violation of regulations, and unauthorized additions to existing buildings. We failed to adequately and frequently conduct the activities of "three prohibitions," and our cultural facilities were relatively backward. In regard to these problems, last year, through implementing the spirit of the National Conference of Party Delegates and conscientiously summing up our experience and lessons, we adopted measures to solve some, and have been solving some, but there are still more than require more arduous work. We believe that as long as we unify our understanding and pace, persist in carrying out the reform, bravely explore our way, strengthen our management and soundly do our work well, we will be able to overcome the difficulties and continue to make progress.

II [Roman 'two] Tasks for 1986

The year 1986 is the first year of the Seventh 5-Year Plan. In order to do this year's work well and in order to ensure a good beginning for the Seventh 5-Year Plan, we must clarify the guiding thoughts for the plan. The seventh 5-Year Plan period will be a key period for our city's economic development. Conscientiously and satisfactorily doing the work in these 5 years will be of extremely great significance in consolidating and developing the fine situation that has emerged since the 3d Plenary Session of the 11th CPC Central Committee, promoting the reinvigoration and prosperity of Wuhan's economy, and smoothly attaining the magnificent goal put forth by the 12th CPC National Congress. According to the principles and policies adopted by the National Conference of Party Delegates last year, the guiding thought for our city's national economic and social development should be as follows: to persist in giving priority to reform and to make our reform and economic construction match with and promote each other; to fix a rational economic growth rate and fixed assets investment scale in order to maintain a proper proportion between accumulation and consumption; to concentrate our financial and material resources on accelerating the construction of key projects in order to provide necessary reserve strength for the long-term development of our economy;

and to strive to carry out economic structural reform and build our socialist spiritual civilization while continuing to satisfactorily develop our economy in order to simultaneously increase our economic results and growth rate and make progress in developing our material and spiritual civilizations at the same time.

According to the above-mentioned guiding thought, we initially decided our city's major fighting goal in the 7th 5-Year Plan period as follows: to continue to carry out various reforms, vigorously promote the progress of our science and technology and exploit intellectual resources, develop our expanded reproduction by intention, continue to improve our economic results and in particular our product quality, vigorously heighten our capability in earning foreign exchange, increase our gross industrial and agricultural output value and GNP so that by 1990, they both will double those in 1980, raise the per capita actual consumption of our urban and rural people year by year, and continue to improve the quality and environment of our people's livelihood and their living conditions. To be more specific: the targets for our city are: an average annual increase of 7.72 percent in our city's GNP, an annual average increase of 7.31 percent in our gross industrial and agricultural output value, of which the gross industrial output value is to rise by an annual average of 8 percent and the gross agricultural output value is to raise 6 percent. We think that these growth rate targets are not too high and can be achieved through the joint efforts of the people of the whole city. We can expect that when the Seventh 5-Year Plan is completed, the various kinds of economic relations in our city will have become better harmonized, our market mechanism and indirect control system will have initially improved, and our price system will have become in the main rational; our production composition will have substantially improved and our rising and tertiary industries will have continued to develop; our enterprises will have been operated with healthy economic results, diverse forms and levels of new-type enterprise groups and advantageous lines of trade will have initially taken shape, our product quality will have further improved, and our economic strength will have been greatly augmented; and our urban infrastructure will have improved more and our city's attraction, influence, and capacity for comprehensive services will have further heightened.

In the Seventh 5-Year Plan period, we should continue to consolidate and develop the achievements of the reform in two circulation spheres, augment our city's economic strength on the basis of heightening its capacity for comprehensive services, and intensify the development of our urban infrastructure. Our tentative plan is to complete the construction of key projects including establishing the Changjiang Beer Brewery and Hankou Gas Works, the extending of the Wuhan duplicating machine, plant, building a large new airport and passenger terminal on the Chang Jiang and a new railway station at Hankou, completing the project to harness the Huangxiao He and the Daihuang [1486 7806] highway, and rebuilding and extending six highways that lead to the urban areas; increase the total capacity of in-city and long-distance telephone services; develop bases that produce lean-meat pigs and other agricultural and sideline products; and start the

early-stage preparatory work for building a second Changjiang bridge, and build the Wuhan Library and Science and Technology Museum. We firmly believe that through relying on the wisdom and efforts of the people all over the city, we will be able to attain the above goals.

Deputies

In 1986, the city people's government will follow the arrangements of the central authorities; solve outstanding problems on the basis of consolidating, absorbing, replenishing, and improving the reform measures we adopted last year; and preserve our advantages, eliminate our disadvantages, continue to explore our way, resolutely, prudently and soundly push forward our reform, and lay a sound foundation for the steady development of our economy in the Seventh 5-Year Plan period. The general requirement for this year is: We should continue to conscientiously implement the spirit of the National Conference of Party Delegates and persist in simultaneously developing our two civilizations. On the one hand we should grasp our reform in order to promote our economic development; and on the other hand we should tackle problems related to our party style and general mood of society; deepen our education in ideals, discipline, and the legal system; and promote the construction of our spiritual civilization. Major tasks for this year are: to vigorously develop horizontal economic relations and augment our city's attraction and influence; to stimulate our enterprises, particularly large and medium-sized ones, and augment their economic strength; to develop the achievements in the reform in the two circulation spheres and give better play to our city's service functions; to improve our market system, correctly handle the relationships between macroeconomic control and microeconomic stimulation, improve our economic results, and maintain a lasting, stable, and harmonized development of our national economy; and to intensify our education in social public morality, strive to provide first-grade service, and give rise to a new socialist prevailing morality of "serving the people and performing one's duties for the people" At the same time, we should intensify our work to improve our public security through the coordinated efforts of all sectors of our society, and gradually bring a turn for the better to our general mood of society. According to the requirements of the Seventh 5-Year Plan, the major targets for this year's economic development are: a GNP of 10.997 billion yuan, 7.7 percent more than that in 1985; gross national income of 8.423 billion yuan, 7.17 percent more than that in 1985; and gross industrial and agricultural output value of 18.899 billion yuan, 7.0 percent more than in 1985. Of this, our gross industrial output value will be 17.617 billion yuan, an increase of 8 percent over 1985, and our gross agricultural output value 1.282 billion yuan, an increase of 6 percent. Our financial revenues will be 2.787 billion yuan, an increase of 11.5 percent.

In order to attain this year's struggle targets, we should satisfactorily do the following aspects of our work:

/1. We should vigorously develop horizontal economic relations and gradually form syndicates and groups of enterprises./

Developing horizontal economic relations is an objective requirement resulting from the development of our socialist planned commodity economy and also a demand resulting from the deepening of our economic structural reform. This year, we should regard developing enterprise syndicates and groups as a major task in developing horizontal economic relations and gradually establish an open-type net-shaped economic structure with horizontal ties in order to promote the development of our commodity economy.

In developing horizontal economic ties, we should adhere to the principle of voluntary participation, equality, and mutual benefit and make progress step by step toward a fixed target. We should focus on establishing horizontal ties related to the mutual provision of services, first with other areas in the province, then with central China and the whole country. We should continue to boost the cooperation and coordination between our enterprises and vigorously develop diverse levels of combines among various lines of trades and among various cities. We should not only vigorously develop cooperation between raw-material producers and processing enterprises, but should also establish cooperative relations for a different level of processing and thus form enterprise groups. We should not only develop cooperation concerning funds, technology, energy, equipment, personnel, and information, but also strengthen the cooperation related to the marketing of products, contract processing of goods, and establishment of joint-stock economic entities. The form of cooperation is diversified. There can be loose as well as close cooperation, which can be related to a single aspect or to all aspects of operations. We can establish joint venture organizations of a service nature as well as joint venture production companies. Through horizontal transdepartmental and transregional economic relations, we will amass the advantages of various enterprises, gain the efficiency of grouping, improve the quality of Wuhan's products, enlarge the batches of their production, improve economic results, unblock the circulation of goods between our urban and rural areas and between our city and other cities, harmonize the development of various areas, and give full play to the diverse functions of our city.

In developing horizontal economic relations, we should first focus on the development of the production of key products and quality products with well-known brands. On the basis of our large backbone enterprises, we should form enterprise syndicates and groups and scientific research and production combined with a relatively sharp competitive edge, each of which will consist of several enterprises in the same line of trade and enterprises in other lines of trade necessary for the completeness of the operation, linking them with the ties of funds and technology. On the basis of investigation and study, we should apply economic and legal means and combine technological transformation, reorganization, cooperation, development of products, and reform in our industrial management system. We should start from developing the enterprise groups related to freezers, boilers, environmental protection equipment, automobile refitting, washing machines, electric fans, baby carriages, and calicos and strive to establish a number of syndicates and groups of enterprises this year. At the same

time, we should gradually establish, in a planned and systematic manner, raw materials production bases for our building materials, leather goods, woolen textiles, tobacco, and other industries and production bases for agricultural and sideline products such as pigs, fish, vegetables, poultry and eggs, in our city or in other areas inside or outside our province.

We should earnestly and satisfactorily carry out regional cooperation, continue to develop coordination and cooperation with the Chang Jiang-Han Shui Plain Cooperation Zone, the key cities along the Chang Jiang, and other areas. We should strengthen horizontal relations with the three cities and two prefectures (Jingzhou, Xiaogan, Xianning, Shashi, and Jingmen) in the Chang Jiang-Han Shui plain and with western Hubei, and explore a new path for developing the regional economy. We should conscientiously carry out the tasks put forth by the first session of the Council of Economic Coordination of Key Cities Along the Chang Jiang, carry out cooperation in the spheres of coordinated transport and accommodation of funds. We should also vigorously develop new scope for cooperation and conduct comprehensive exploitation of the Chang Jiang. At the same time, we should also develop diverse forms of cooperation such as joint ventures with Chinese and foreign capital and compensation trade, gradually establish our system of commodity production for exports, and enlarge the foreign exchange earning capacity of our exports. We should arouse all the sectors of our city to make efforts to continue to give counterpart support to old Soviet areas and poor areas. We should vigorously develop our cooperation with other areas in the country and gradually realize our plan to develop "five levels" of horizontal relations.

All departments and lines of trade should continue to improve their understanding, persist in carrying out reform and opening up to the outside world, do away with the separation between departments and areas, overcome the idea that upholds making our enterprises "large and all-inclusive" and "small and all-inclusive," foster the sense of long-term interests and mass production, and create favorable conditions for promoting and developing horizontal economic cooperation. We should continue to analyze and study the new situation and problems related to horizontal cooperation and formulate corresponding measures. We should manage to support horizontal cooperation by our policies and protect it by our laws. We should provide economic, ideological, and legal guarantees for the healthy development of horizontal cooperation. The departments in charge of our enterprises must be adapted to the needs in strengthening horizontal cooperation, change their administrative functions, and vigorously help our enterprises satisfactorily carry out horizontal cooperation.

/2. Better enliven our enterprises, particularly large and medium-sized ones, and continue to improve our economic results./

Enlivening our enterprises, particularly large and medium-sized ones, is the key link of the whole economic structural reform with the focus on urban reform. In order to consolidate and develop our achievements in enlivening our enterprises, we should urge enterprises to make internal

efforts as well as create external conditions for their development and thus enable them to acquire the capacity for self-transformation and self-development.

In accordance with the requirements of the planned commodity economy, our enterprises should foster new management concepts, reform their management methods, open up new management scope, formulate management policy decisions, apply the market mechanism, and conduct flexible management. They should satisfactorily reform their leadership system. Beginning this year, on the basis of the experiment on the implementation of the system of the factory director (manager) assuming responsibility, every large and medium-sized enterprise in our city should implement the factory director responsibility system with targets for his term of office, establish a unified, powerful, and highly efficient production command and administration and management system, and actually and closely combine administrative direction by its factory director, guarantee and supervision by its party committee, and democratic management by its staff and workers and ensure that the director, committee, and staff and workers all perform their duties. Our enterprises should proceed from reality, appropriately divide themselves into smaller accounting units, diversify their operations while maintaining major areas of operation, and diversify their production, operational, service, and enterprise functions. They should reform their system of internal administration and management and merge information management, scientific research management, production management, and management geared to the market. They should conscientiously reform the composition of their ownership system. Small state-owned enterprises can be contracted or rented to collectives to be managed by them. At the same time we should strive to make a breakthrough in our experiments to establish a joint-stock economy. We should select some small enterprises that are suffering losses and reorganize them through bankruptcy and thus urge enterprises suffering losses to quickly overcome their losses. We should continue to perfect our distribution system and do away with egalitarianism in distribution.

In order to stimulate our enterprises, we should closely grasp the two links of improving product quality and reducing material consumption. We should persist in giving priority to product quality, conduct all-round quality control, establish and perfect our quality guarantee system, strengthen quality checks and supervision, and really reach a new high in improving our city's product quality. We should enlarge the scope of the experiments in giving awards to those who conserve materials and energy in order to continue to reduce the consumption of materials and goods. We should continue to intensify the fundamental work of enterprise management, perfect our management responsibility system, vigorously urge our enterprises to modernize their management and thus improve their management in an all-round manner. We should accelerate our technological transformation and development, conscientiously apply advanced technology and equipment to transform our existing enterprises, vigorously develop new products and varieties, and augment the economic strength of our enterprises. At present, we should focus on satisfactorily undertaking the production of key

products. At the same time, we should vigorously develop our raw materials, food, textiles, garments, and durable consumer goods industries and satisfactorily organize the production of small commodities. We should continue to implement the contract management responsibility system and intensify the marketing of our products. We should give full play to the regulatory role of our economic levers in order to improve the external conditions for our enterprises and create a satisfactory environment for the normal operation of our enterprises.

We should encourage exports to earn more foreign exchange. We should widely develop external cooperation, formulate policies to encourage exports, conscientiously open up a foreign labor service market, accelerate our progress in increasing our foreign exchange earnings, and promote the development of the use of foreign capital and the importing of foreign technology. We should help and consolidate the production of export commodities in our foreign exchange earning enterprises and key enterprises, and grasp the export of key marketable products and products of well-known brands and fine quality. At the same time we should develop new bases of export commodities and factories and workshops specializing in the production of export goods. We should combine industry, agriculture and technology with trade, and implement a system of assigning agents to carry out foreign trade. We should give price subsidies for products export at lower prices, award enterprises and staff and workers who have contributed to earning foreign exchange through exports, and ensure our enterprises' rights to own and spend their retained foreign exchange. Our banks should give priority to providing funds for enterprises that deal in export commodities and that produce export products. While satisfactorily exporting our light and textile products, we should conscientiously develop export products in our electrical appliance, machine building, chemical and pharmaceutical industries.

/3. Focus on opening up markets for the means of production and funds, gradually perfect the market system, and vigorously develop tertiary industry./

Circulation is the bridge between production and consumption and is an important function of our cities. While continuing to expand our consumer goods market, we should focus on opening up markets for our means of production and funds, vigorously develop technology and labor markets, perfect our market system and improve its service function.

We should better stimulate our consumer goods market. We should keep the gates of our three towns open wide and welcome other areas to set up shops and factories in Wuhan. We should encourage our commercial enterprises to go to other areas to market goods, organize sources of goods, and stimulate the market. We should consolidate and develop various kinds of trade centers, better sort out and reorganize various categories of companies, intensify our administration over commerce in our society, focus on satisfactorily grasping the development of our wholesale market, develop a well-connected wholesale business network, and increase the exchange of commodities with other areas.

We should conscientiously develop a market for the means of production and gradually reduce the variety and quantities of the means of production for which distribution is monopolized by the state. A portion of the steel, timber, and cement supplied according to plan will be sold at unified market prices, but the sellers will pay the buyers for the difference between the market price and planned price. This practice will be developed to cover more categories and quantities of goods. Specialized material and equipment companies of various kinds will gradually grow and become site for transactions of large quantities of materials and equipment. As one of the five cities where experiments in our national financial reform are being carried out, our city should take great strides forward. It should gradually start the banking business for retirement funds deposits, checking deposits, and checking deposits with a ceiling on withdrawals for each check, issue various kinds of shares and bonds in a planned and systematic manner, and thus vigorously raise funds. We should develop short-term interbank lending among the city branches of the People's Bank of China and specialized banks and credit cooperatives. We should strengthen transregional economic ties and intensify transregional cooperation by means of compensation trade loans, buyers' credits, leasing, and loan trusts. We should popularize the use of commercial bills and develop the business of discounting bills in order to meet the demands resulting from the expansion of commodity circulation. Subject to approval, enterprises can issue shares and bonds to directly raise funds from other enterprises and from among people as individuals. We should gradually form a funds market for short-term interlending inside our city and between our city and other areas. We should improve our planned credit management system and set up a board in our branch of the People's Bank of China. Our specialized banks and insurance companies should be administered and managed as enterprises. We should gradually form a financial system with the branch of the People's Bank of China as the core and our specialized banks as principal parts and with the coexistence, division of labor, and coordination among them and other financial institutes. We should continue to develop our technology, labor, and information markets and make the various markets coordinate with one another and form a complete system.

While stimulating our markets, we should perfect our macroeconomic control and management and ensure that the reform develops in the right direction. We should control our credit volume and our fixed assets investment, our consumption demand, and our general price level. We should continue to separate the functions of our government from those of our enterprises, streamline our administration, decentralize power, and reform the functions of our government. We should gradually perfect our systems of law, rules, and regulations. We should intensify our efforts in developing our auditing, taxation, price administration, industrial and commercial administration, weights and measures, standardization, food sanitation, and other administrative departments and exercise effective supervision and administration.

The key to establishing and perfecting our market system is the reform in our price system and price management system. The major task of price reform this year is to assimilate and improve the reform measures we have

already been implementing. On this basis, we should study the contradictions related to the dual prices of our means of production, the interaction between planned, floating, and free prices and their impact on the market, maintain a basic price stability in our market, and thus make satisfactory preparations for the reform in the next two years. We should fully apply our market mechanism, and organize our state-owned enterprises to participate in regulation by the market mechanism and play a role in regulating and stabilizing our market and controlling the prices there. We should control the sources of supply of our major foodstuffs such as pork, vegetables, fresh eggs, and fruit, satisfactorily readjust the supply, and thus make it meet market demand. We should basically maintain stable prices for daily use industrial products and service charges that are closely linked with the people's livelihood; strengthen our administration over individual commerce, the catering business, and service trades, and protect those who observe the law in doing their business, prohibit improper competition, and protect consumers' interests. We should widely publicize price reform, strengthen our price supervision and inspection organizations, firmly prohibit the malpractice of unauthorized and disguised price hikes, and ensure smooth progress in our price reform.

Improving our communications is an objective demand resulting from the opening up of diverse markets and giving play to the role of our key cities. This year, we should give priority to developing our communications and telecommunications industries. We should persist in carrying out reform, streamline our administration, decentralize our power, perfect our communications administration system, tap our transport potential, improve our transport composition, and enlarge our transport capacity. When the management of Wuhan Port is transferred down to us, we should exercise unified management over all the ports in our city. We should continue to develop cooperation in providing through transport and expand trans-provincial passenger and cargo road transport. We should continue to organize the work of conditionally opening railways for special use to the public and continue to do a good job of dividing the flow of transport between our railways and highways. We should pay close attention to ensure the construction of key infrastructure projects. We should mobilize and organize the force of our community in developing our communications and telecommunications industries and enlarge the scope and capacity of our communications and telecommunications service.

While stimulating our market, we must continue to develop our traditional service trade, enlarge the scope of its services, better develop the rising service trade sectors related to information, tourism, advertising, advice and consulting, insurance, renting and leasing, storage, and cold storage. We should intensify our administration, enlarge the area of our services and give play to the diverse functions of our city.

/4. Deepen rural economic reform and promote the development of rural commodity economy./

Agriculture is the foundation of our national economy. The steady development of our national economy demands an all-round development of our rural economy. The general requirements for this year's rural work are as follows: to steadfastly implement the spirit of the CPC Central Committee Document No. 1, better carry out various rural economic policies, continue to readjust our production mix, improve agricultural production conditions, organize pre- and post-production servicing, and achieve a new level of development of our rural planned commodity economy. According to this year's plan, we should produce 1.65 metric tons of grain, the number of pigs slaughtered should be 1 million, the output of fresh fish should be 60,000 metric tons, our township and town enterprises should strive to increase their gross output value by 30 percent, the per capita net income should increase by about 50 yuan, and the rural per capita grain output should be 500 kilograms.

"Never slacken our efforts in grain production and vigorously develop diversified undertakings" is a fundamental guideline for our agricultural production. Our counties, townships, and villages should first ensure an adequate area of farmland for grain production, solve various problems related to our grain production, and earnestly grasp grain production. At the same time, we should vigorously develop diversified undertakings, in particular animal husbandry, aquatic production, forestry, and fruit production and develop rural industry, construction, transport, and service trades. Out near suburbs should mainly grow vegetables and pay attention to developing the production of other foodstuffs. We should accelerate the specialization of our rural economy, quicken the process of turning our rural economy into a commodity economy and establish production bases in our rural areas, and speed up rural modernization. Our urban and rural areas should make joint efforts to combine industry with agriculture and agriculture with commerce and jointly strive to satisfactorily establish bases for quality rice, quality cotton, fishery, vegetables, and lean-meat pigs. We should establish service organizations in the light of the categories of products and lines of trade in order to provide systematic and comprehensive services related to fine varieties and breeds, technology, processing, marketing, and purchasing. We should achieve substantial development in our industries related to animal feed, seedlings, immunization, transport, and marketing. Through providing services, we will gradually develop specialized cooperative organizations.

The development of our township and town enterprises is indispensable to the prosperity of our rural economy. Agriculture and rural industry must develop in harmony. Our urban industrial administration departments and enterprises should conscientiously spread their products and provide technology, personnel, and funds to help township and town enterprises develop. We should draw up rational plans, intensify our management and combine the restructuring of our urban production with that of our rural production. We should not only regard agriculture as the foundation and focus on developing the agricultural and sideline products processing industry and undertakings that serve our agricultural production, but we should also vigorously develop, in the light of our actual needs and

conditions, our building materials industry, construction industry, and the processing industries that serve our large industrial enterprises or that facilitate our exports.

We should continue to intensify our work to help poor areas and old Soviet areas and earnestly help them overcome poverty. We should proceed from reality, make distinctions between different areas, assign responsibility level by level, tackle problems in these areas by batches, and conscientiously overcome the difficulties related to the supply of potable water and medical treatment. We should persist in providing counterpart aid to help poor areas gradually follow the path of using their local advantages of natural resources, develop production through self-reliance, and improve people's livelihood.

/5. Accelerate construction of urban and rural infrastructure and perform more actual deeds for the masses of people./

The work of building and managing our city should be centered on building Wuhan City into an open-type, multifunctional, socialized, and modern economic center. On the basis of improving and expanding the capacity of the existing facilities, we should continue to create conditions to ease, to some extent, the shortage of road facilities in our urban areas, improve our fuel mix, reduce the destruction caused by flooding, continue to enlarge our flood prevention capacity, score relatively great achievements in afforestation, environmental protection and environmental sanitation, and gradually create a clean and comfortable surrounding to live and work in.

In the light of this requirement and in accordance with the principle of acting according to our capacity, we should do the following 20 things for our urban and rural people in a down-to-earth manner: 1) We should build 2 million square meters of residential buildings, of which 14,000 square meters will be used for the implementation of the policy related to private houses confiscated during the cultural revolution and 50,000 square meters will be specially built for teachers; 2) we should start construction on the first phase of Hankou Gas Works; 3) we should build a new children's hospital at Qiuchang Street with a clinic and a building of wards with 600 hospital beds and extend the hospital attached to the staff and workers medical college, adding 100 hospital beds to its department of gynecology and obstetrics; 4) we should continue to harness the principle of the Huangxiao He and this year we should complete the construction of the box culvert and 2½ kilometer long road from Qingnian Road to Sanyan Bridge and strive to build more box culverts and roads; 5) we should in the main complete construction of Zhujia He Bridge; 6) we should build and rebuild nine roads including Wuchang's Xinmin Road and the trunk road in Hanyang; 7) we should complete the Qinduankou Water Works extension project in Hanyang before the peak demand period for water comes and thus ease the water shortage then; 8) we will allocate 5 million yuan for building or rebuilding 308 public toilets and septic tanks; 9) we should continue to improve the southern section of the yellow crane tower park, start building Xin's restaurant, install recreation facilities round the lake in the Dong

Hu scenic area, and quicken the development of the Hanyang tourist zone; 10) we should build the Yanluo dock for automobile ferries, complete construction of the Zhongbei Road Trolley bus maintenance depot and Daijiashan bus depot, and acquire 100 new buses and two passenger ferries; 11) we should accelerate the construction of the project to prevent polluted water from flowing into the Dong Hu and treat water pollution in 120 polluted rivers; 12) we should build two transformer substations respectively at Xinchong, Xingzhou County, and Taersu District, Huangpi County; 13) we should rebuild 170,000 square meters of grade-1 dangerous school buildings in our urban and rural areas; 14) we should build a new science and technology museum; 15) beginning in 1986, we will allocate 600,000 yuan a year, thus providing 3 million yuan in 5 years to establish tree seedling bases; 16) we should establish water works at the county seat of Xinzhou county and at Shamaoshan town in Hannan and help the people in 20 small towns including Xinchong, Zhashan, Liji, and Daqiac town to carry out their projects to improve their potable water, and solve the potable water problem for another half million of our rural people; 17) in accordance with our plan, we should gradually improve the commercial networks in 22 small towns in our suburban counties and develop tertiary industry; 18) we should start to build two large sits for trade fairs; 19) we should build and extend some of our dykes and flood-prevention dams; and 20) we shall invest 5.6 million yuan for the construction of rural water conservation facilities.

We should continue to improve our urban planning. This year, we should continue to revise the general plan for our city and deliver it to the upper level for examination and approval. We should continue to formulate detailed plans, regional plans, professional plans, plans for small districts, plans for areas along railways, and plans on immediate large and medium-sized urban construction projects. We should foster the viewpoint of long-term development and earnestly correct the tendency of exploiting all opportunities to start projects and seek only immediate benefit in our urban construction. We should apply administrative, economic, and legal means to overcome the malpractice of carrying out construction in violation of the regulations and ensure that our construction is carried out in a planned and coordinated manner.

Our urban administration should be aimed at making our city tidy, clean, and beautiful and focus on overcoming dirtiness and disorder. We should strictly impose various regulations and rules and vigorously coordinate various measures. We should intensify the cooperation and coordination between various specialized administrations, implement the contract responsibility system geared to the administration of districts and sections, arouse the masses of people to cooperate with and supervise the administration, and thus gradually make our urban administrative work systematic, regular, and scientific. We should better straighten out the order at key spots in our city; do a good job to fix and readjust the location of hawkers and groups of hawkers; put our construction sites, docks, and stations in order; and continue to implement the responsibility system wherein a unit should shoulder all-round responsibility for cleanliness, sanitation, and order in the public area around it. We should give full play to the administrative role of district governments, subdistrict offices, and neighborhood committees and accelerate the pace of the development of urban civilization.

We should deepen the reform in our construction industry. We should continue to improve the tender contract responsibility system and the method of assigning all-round responsibility by contracts for the percentage of wage costs in output value, and thus organically combine speeding up construction with improving construction quality. We should continue to open up our construction market, reform the system of worker recruitment, and establish a system to combine our urban and rural construction work force. At the same time, we should earnestly reorganize our construction market, intensify our administration over construction contingents, severely prohibit the practice of transferring responsibility contracts, and ensure the quality of construction.

/6. Push forward the reform in our scientific and technological and educational systems, and promote social and economic development./

The restructuring of our production, the changes in our consumption patterns the progress in the technological transformation in our enterprises, and the development of our agriculture and township and town enterprises have given rise to many new tasks for our scientific and technological work. We should continue to push forward the reform in our scientific and technological system, vigorously popularize scientific and technological results in accordance with the "spark plan," and make best use of our advantages in technology and natural resources to carry out comprehensive development research related to lean-meat pigs, quality fish, fine breeds of water melons, and edible mushrooms. On the basis of summing up our experience in setting up the three development centers related to lasers, amino acids, and aquatic products, we should gradually set up optical fiber, biological engineering, computer software, and microelectronic development centers. We should intensify the development and application of applied technology and provide service to promote technological progress and stimulate the local economy. We should arrange the work of tackling scientific and technological problems, hurdle around developing key products and carrying out technological transformation in our advantageous lines of trade, develop full systems of scientific and technological capacity, strive to achieve a number of satisfactory scientific and technological results, and provide advanced and applicable technology for our traditional technology. We should combine our scientific research with the imports of advanced technology, do a good job of assimilating, absorbing, and developing imported technology and thus turn imported technology into our own technology and make it serve the development of new products to replace our old ones. In the light of the restructuring of our rural production and the development of our commodity economy, we should gradually probe ways to establish scientific and technological service systems of various kinds for our counties, districts, townships, and villages; combine technological service with business related to the commodities of materialized technology; combine experiments, setting examples, popularization, and technical training; continue to develop scientific and technological households of various kinds in our rural areas; and gradually establish diverse forms of agricultural technology contract responsibility systems geared to agricultural technology.

We should persist in carrying out our educational reform, handle our educational undertakings as we do our economic construction, and create a new situation in our city's educational work. We should formulate a plan for the implementation of the 9-year compulsory education system to popularize basic education; adopt vigorous measures to develop teachers' education; make great efforts to develop secondary vocational and technical education; continue to develop various kinds of short-term vocational training; concentrate our energy on developing secondary professional and technical schools for adults; appropriately reorganize our television universities, staff and workers universities, and evening colleges, tap the potential of the higher education institutes under the jurisdiction of our city; and rely on the colleges and universities in the Wuhan area to accelerate the training of personnel. We should gradually increase our intellectual investment. The educational funds allocated by our local government should increase quicker than their current financial revenues do, and there should be a gradual increase in the per capita educational funds for the students studying in our schools. We should overcome and correct the prejudice that looks down upon knowledge and talented people and foster the prevailing morality of respecting knowledge and teachers in our society.

We should boost reform in our medical and public health work and develop medical and public health undertakings in various forms. We should strengthen our hospital management, consolidate and strengthen urban and rural basic-level public health institutes, and improve service attitudes and the quality of medical service. We should reinvigorate our traditional Chinese medical undertaking and create a new situation in our work related to traditional Chinese medical science and medicine. We should conscientiously prevent and treat local diseases and infectious diseases, particularly schistosomiasis, and earnestly and satisfactorily carry out patriotic health campaigns in order to improve our masses of people's health. We should continue to satisfactorily carry out our planned parenthood work and make great efforts to popularize mass sports activities. We should continue to develop our various cultural undertakings including press, radio, and television broadcasting, and literature and art. We should strengthen our work related to cultural relics and protect and restore the features of our city as a well-known historical and cultural city.

/7. Continue to strengthen the construction of our spiritual civilization while pushing forward the construction of our material civilization./

The deepening of our reform and the development of our economic construction have raised new demands on the construction of our urban and rural socialist spiritual civilization. We should fully understand the significance of our construction of spiritual civilization in our undertaking of socialist construction, earnestly manage to grasp the two civilizations simultaneously and score achievements in both areas, regard the construction of our spiritual civilization as an important constituent part of our socialist modernization, and persist in it. Closely in the light of the reality in our city in opening up the outside world and stimulating our economy, we

should make all-round planning, adopt adequate and coordinated measures, focus on key sectors, make great efforts and ensure that we really grasp the work well.

In developing our spiritual civilization, we must always grasp the key link--ideological work. At present, we should regard as our goal the training of new people who have ideals and morality, who are educated, and who observe discipline. We should deepen our education in ideals and discipline, extensively carry out the activities of "setting good examples and learning from the advanced, and unfold a vigorous mass campaign all over our city to learn from Xu Yunsheng, Hu Dongsheng, Chen Qifa, Tang Zhiguo, Xiong Hanxian, and Li Wangying. The administrative leaders at all levels should satisfactorily do their ideological and political work in the light of their vocational work and link solving ideological problems with solving actual problems. We should foster satisfactory professional ethics, pay attention to maintaining our enterprises' reputation, do business and run our factories in a civilized manner, oppose a corrupt business style, vigorously correct the unhealthy practices in various trades, improve service attitudes, and provide first-class service. Our ideological, cultural, educational, and press sectors should persist in putting social benefits first and strive to provide rich and healthy mental food for our people. Our social scientific research should be closely linked with reality and provide theoretical guidance for intensifying the construction of our material and spiritual civilizations.

Establishing civilized units is fundamental in developing our spiritual civilization. On the basis of conscientiously summing up the experience we gained last year, we should revise and implement the development plan for this year and extensively carry out the activities of "striving to establish civilized units and to become civilized citizens and jointly turning Wuhan into a civilized city." We should focus on satisfactorily grasping the activities in leading organs and in "window" trades and thus promote the development of the activities throughout our city. We should deepen the activities to establish five-goods houses and families, and civilized units, neighborhood committees and villages and encourage the new prevailing morality of respecting old people, taking loving care of children, and maintaining good neighborly relationships. We should continue to carry on the fine tradition of supporting the army and giving preferential treatment to families of servicemen and martyrs and supporting the government and cherishing the people and better carry out the activities of the Army and people jointly establishing civilized units.

Popularizing legal knowledge and intensifying the development of our legal system is an important part of the construction of our socialist spiritual civilization. This year, we should conduct education to popularize knowledge about our legal system in an all-round manner and make the people all over our city heighten their sense of the legal system, know the law and observe the law, and form the habit of acting in accordance with the law. In the education process for popularizing legal knowledge, we should

focus on teaching our cadres and youngsters. At present, we should first satisfactorily grasp the work of training our cadres, in particular leading cadres at various levels. Our leading cadres should take the lead in studying, observing, and enforcing the law.

We should continue to straighten out our public order and security. We should continue to crack down on various kinds of serious crimes and serious economic crimes, promptly investigate and handle major and important cases, and better intensify the work of straightening out our public security by arousing the coordinated efforts of the whole community. We must prohibit all evil practices that corrupt the general mood of our society and create a fine social environment for the smooth progress of our reform and various aspects of other work.

In order to fulfill the above-mentioned tasks, and in order to boost the reform and construction in the whole city, we must intensify our work to consolidate our government organs. The people's governments at all levels should continue to do a good job of streamlining administration and decentralizing power in accordance with the principle of separating the functions of government from those of our enterprises, and satisfactorily do the work of unified planning, coordination, supervision, and service in order to meet the demands of the economic structural reform. The workers in our state organs should set examples in serving the people, shouldering responsibility for the people, and willingly working as public servants for the people.

The leaders of our city people's government should be the first to correct their work style and thus set examples for other people. Our leading cadres should not only be strict with themselves and firmly oppose and correct various unhealthy practices, but should also teach their children and relatives to carry forward and develop the fine tradition and set examples in observing the law and discipline. Our government workers should keep well in their minds the goal of serving the people wholeheartedly, carry out difficult struggles, heighten their sense of discipline, study hard, transform their work style, be courageous to shouldering responsibility, overcome bureaucracy and the malpractices of shifting responsibility and stalling, listen to the voice of the masses of people, accept the people's supervision, rise with force and spirit, work diligently, improve their work efficiency, and thus make greater contribution to the party and people.

Deputies:

Our city has already overfulfilled the Sixth 5-Year Plan in an all-round manner and victoriously entered the period of the Seventh 5-Year Plan. We should respond to Comrade Hu Yaobang's call that we should "unite as one to carry out the struggle and fulfill another magnificent plan," give first priority to reform, and earnestly and satisfactorily do all aspects

of our work this year. We firmly believe that as long as the people all over the city unite better as one under the guidance of the CPC Central Committee's line, principles, and policies, as long as they continue to open our way and forge ahead, they will certainly be able to fulfill all the tasks this year and realize the struggle goals of the Seventh 5-Year Plan and a united, rich, and civilized Wuhan will certainly be able to emerge before the people of the whole city.

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CSO: 4006/990

ON REFORMING TOWNSHIP ENTERPRISES ACCOUNTING PROCEDURES

Beijing NONGCUN CAIWU KUAIJI [RURAL FINANCIAL AFFAIRS] in Chinese No 10, 6 Oct 85

[Article by Bao Weihe [0545 4850 0735]: "Tentative Ideas About Improving Township and Town Enterprise Accounting Procedures"]

[Text] The accounting system currently used by township and town enterprises is still the financial control method and accounting system (provisional draft) that the Ministry of Agriculture and the Ministry of Finance prescribed for commune-operated enterprises in 1980. It played a positive role in unifying the financial accounting system used by township and town enterprises throughout the country, in strengthening administration and management, and in perfecting financial accounting.

With improvements in the rural economic system and promotion of economic diversification and contract responsibility systems, however, township and town enterprises throughout the country have expanded greatly. By 1984, they showed a gross output value of 170 billion yuan and paid 15.7 billion yuan in profits and taxes to the state to become an important mainstay of the rural economy. Vast numbers of peasants were heading along an important road toward common prosperity, which was an important source of financial revenues for the country that held a decisive position in the rural economy. In the wake of the 3rd Plenum of the 12th Central Committee, in particular, the further liberalization and enlivening of rural economic policies as well as comprehensive readjustments to the industrial structure and tax collection policies occasioned a series of changes in township and town enterprises. The prevailing accounting system was no longer suited to the changed situation in many places and was in urgent need of corresponding improvements. Below I have taken up only improvements in accounting headings for township and town enterprises, and I have put forward some tentative ideas for consideration.

1. Purpose of Accounting Headings.

(1) Accounting headings are means that enterprises employ for categorizing when reporting and supervising economic activities. They provide the officials of enterprises with the various accounting data and information that they need for administration and management.

(2) Every accounting heading represents a specific economic component and its corresponding relationships. Consequently, the crafting of accounting headings requires both that they reflect the totality of the movement of funds, and that they are also able to reflect individual integral parts. They have to account for the funds used by various economic activities, the sources of funds, and the overall picture of the movement of funds, and they also have to account for the financial situation and results of operations.

(3) Financial headings are the basis for setting up ledgers and for preparing reports and tables. They have to be uniform and offer convenience for compiling, and for checking and supervising economic activity.

Clearly, improvement of accounting headings is the foundation for improvements in the accounting system; they must not be taken lightly.

2. Principles For Improvement of Accounting Headings

(1) Improvement of existing accounting headings for township and town enterprises definitely requires acting in the spirit of CPC Central Committee decisions on reform of the economic system to give township and town enterprises the vitality they should have, to steadily upgrade enterprises, and to improve economic performance.

(2) It is necessary to reflect to the full prevailing national programs, policies, regulations and laws. Since 1981, the Central Committee has issued several documents number 1, and in 1984, it issued a document number 4 devoted specifically to township and town enterprises. In 1985, the Ministry of Finance promulgated the accounting law. All these documents should be used as a basis for formulating accounting headings, taking into concurrent account the interests of the country, collectives and individuals.

(3) It is necessary to follow the principle of seeking truth in facts, and to proceed from the realities as they exist for township and town enterprises and for financial accounting personnel. The setting up of accounting categories has to be based on the characteristics of the enterprise concerned, the scope of its operations and their vocational complexity so that it reflects the whole process of the enterprise's supply, production and marketing. Consequently, revision of the existing accounting system has to follow the principle of being crude or meticulous where required, and retaining or discarding whatever must be retained or discarded so as to achieve a proper combination of the complex and the simple, a clear-cut intent, and ease of use.

3. Need To Improve Accounting Headings

Accounting categories to be established should give full expression to the many trades and industries that make up township and town enterprises, and the diversity of forms of ownership so that the interests of the country, collective and individuals will pervade the whole process of commodity production and permeate every link of industry, agriculture, business, production, supply and marketing. To do this, improvements in accounting headings have to reflect prominently the following several stock headings:

1. They must correspond to the many channels of funds for township and town enterprises and the diversity of methods used for gathering funds. There have to be more headings set up for "production operation funds," and various secondary headings have to be set up under this heading and under the heading of "special purpose funds" to reflect exhaustively and accurately channels for sources of funds and uses to which special purpose funds are put for the protection the legal rights of investors.

2. Need to control scale of capital construction by enterprises and the speed of development of production. Under the heading, "fixed assets," should be set up sub-headings for "houses and structures," "machine-powered equipment," "transportation vehicles," and "equipment prone to corrosion" for ease of control by categories and figuring of withholdings for depreciation. Strict control must be exercised over "payments for the purchase or construction of fixed assets" and the principle of proceeding within capabilities adhered to for a reversal of the situation of enterprises relying entirely on loans to undertake capital construction. Those production enterprises that are truly developing at ultra-high speed should slow down as a practical matter. Henceforth, they should do good planning that is closely linked to natural resources and the construction of industry and transportation. They should make arrangements taking all factors into account, developing and setting up sites in a planned way, avoid blindness in action, and make full use of strengths, so that the enterprise's development will have more staying power.

3. Need for greater control over the "profits distribution" heading. Full expression must be given to policy rulings on investment and distribution of profits, reduction or exemption from taxes, pre-tax loan repayments, withholdings by the enterprise and payments of profits to the state. This gives a strong policy flavor to accounting and record keeping for township and town enterprises, and is the most important indicator distinguishing these enterprises from all others.

4. Need for greater supervision of the production (business) process. This means, for example, that under the heading "materials," there should be sub-headings for "materials en route," "materials sent for processing," "materials in storage," and "expendables." Business enterprises should add sub-headings for "commodities in storage," "retail sales commodities," and "enterprise commodities" by way of increasing control and supervision over raw materials and the flow of commodities to reduce waste.

In the control of expenses and costs, cost categories must be rigorously set. Unreasonable expenditures may not be bootlegged into costs.

5. Need for stronger control of final accountings for funds. Accounts receivable and accounts payable have to be separately supervised and final accountings made promptly. Dunning of rural and small town enterprises from all sides is strictly forbidden, and the tying up of large amounts of circulating capital is to be guarded against. Enterprises should not depend on high interest loans to maintain production that make product costs high, robbing them of their market competitiveness.

(2) Needs of township, village, residents team and associated commune member household enterprises should be met. In setting up accounting headings, the requirement of "four wheels" all turning together should be reflected. Central Committee (1984) Document No 4 explicitly ruled that in improving accounting headings, "township and town enterprises (i.e., commune (township) and production brigade (village) operated enterprises, some cooperative enterprises run by associations of commune members, other forms of cooperative industries and enterprises run by individuals)" must remember that except for enterprises run by individuals (households), which cannot currently set up ledgers for supervision, all four other levels have to keep records. Even though township and village levels are unable to meet requirements for development of township and town enterprises, only by bringing under control enterprises operated by townships, villages, residents teams and associations of commune members is it possible to show the total picture of township and town enterprise development.

(3) There must be a combination of a scientific character and a mass character. Some township and town enterprises are large while others are small, some accounting personnel are better qualified than others, and the amount of economic activities varies. Circumstances are complex and there are great differences between one enterprise and another. For this reason, in designing accounting headings, one cannot act with "arbitrary uniformity." One must use a mix of scientific and mass character, doing everything possible to reduce the number of bookkeeping levels and simplifying bookkeeping procedures while being consistent with accounting and record keeping principles and proceeding from a scientific basis.

Just how many accounting headings should be set up? There are as many opinions on this issue as there are people. Economically developed areas advocate great refinement in economic work with the setting up of numerous accounting headings and detailed categories. They emphasize the scientific character of accounting and bookkeeping. Places in which economic development has been slower advocate the setting up of fewer headings. They emphasize the need for taking into consideration the actual situation in township and town enterprises and the capabilities of accounting personnel. They are interested in the mass character of accounting.

How does one go about achieving a combination of a scientific character and a mass character? Practice has shown that when too many accounting headings are set up, the subject matter becomes unwieldy. Too few headings, on the other hand, make it impossible to reflect clearly different aspects of the movement of funds. For this reason, a combination of scientific character and mass character is needed, every effort being made on a relatively scientific basis to reduce the number of bookkeeping levels and to simplify bookkeeping procedures. To achieve this goal, consideration may be given to setting up a high and a low number of entries in new accounting headings. Since township and village enterprises are fairly large in size and since their accounting personnel are fairly skilled, they could use the accounting headings that are in general use throughout the country that reflect in fairly great detail an enterprises's economic activities. Enterprises run by residents teams and enterprises run by associations of households could also select several main headings for use that distinguish between uses to which funds are put and

sources from which funds derive, and that also permit accurate calculation of profits and losses while satisfying reporting criteria required by higher authority. This would have the following advantages:

1. A uniformity of headings and a standardization of content could be achieved, and the main indicators in reports and tables would be identical making for ease of collation and ease in providing data on the macroeconomy.

2. It would make possible a gearing to the actual situation in small enterprises, and it would also satisfy requirements for larger enterprises, satisfying both "the need for more and the need for less."

4. Problems in Setting Up Headings For "Fixed Funds" and "Circulating Funds."

One of the burning issues in the controversy about reform of the accounting system is whether or not fixed funds and circulating funds should be set up separately. Some comrades recommend separation between "fixed funds" and "circulating funds," with sub-headings under each for "state support funds," "rural funds," "enterprise funds," and "funds invested from outside." The reasons are as follows: 1) These heading concepts are clear and explicit. 2) Separate headings make it possible to provide banks data at any time on the status of an enterprise's circulating funds when loans are requested. 3) Incumbent accounting personnel are thoroughly familiar with this system, and even though it is somewhat tedious, they prefer to keep ledgers in this way. Some comrades recommend merging "fixed funds" and "circulating funds" under the heading "production operation funds," with five sub-headings, namely "rural funds," "enterprise funds," "funds invested by other units," "funds invested by individuals," and "state support funds." The advantages of this method are as follows: 1) It provides a clear record of the sources of funds for ease in figuring out the sharing of profits on each category of funds, with no need for dividing into "fixed funds" and "circulating funds" categories the investment in shares by every Tom, Dick and Harry. 2) As a practical matter, when township and town enterprises use funds, they cannot put fixed funds into a bank account at a low rate of interest and then use high interest loans as circulating funds. Therefore, objectively speaking, there is no real purpose in setting up these two headings. 3) When there are two headings for funds, procedures are unwieldy and there are too many columns to fill in. For example, for depreciation of fixed assets, four separate columns have to be filled in; six columns have to be filled in for fixed assets purchased or built through purchases of shares by employees. Accountants say, "This is like pouring water back and forth among eight jars, emptying one and filling another, causing hardships for oneself. Once property has been sold, it makes no difference where the funds for it came from." 4) It is not difficult to find out the amount of fixed funds and circulating funds without setting up two separate headings. Fixed funds equal fixed assets minus depreciation; circulating funds equal production operation funds find fixed funds.

After all is said and done, I agree with the latter view.

5. The Problem of How to Respond To The Many Trades and Industries in Township and Town Enterprises

Inasmuch as township and town enterprises are made up of many trades including industry, agriculture, business, construction, transportation and services, and since conditions do not exist at the present time for formulating individual accounting systems for each trade, all that can be done is adopt the principle of industrial enterprises being paramount with concurrent concern for other trades, because more than 70 percent of existing township and town enterprises are industrial enterprises. I propose the designing of a set of multi-purpose accounting headings for industries, which can be provided to all categories of township and town enterprises for their use. For example:

(1) For the heading "production expenses," relatively small enterprises may set up headings for "basic production," "ancillary production," and "workshop expenses." Business enterprises can change the heading for "production expenses" to "circulation expenses." Service trades may change it to "business expenses;" transportation enterprises may change it to "transportation expenses," and construction and installation enterprises may change it to "project construction."

(2) The heading, "finished products" may be changed to "commodities in storage" by business enterprises. If a bookkeeping method of assigning price at time of shipment is used, a heading called "retail store commodities" may be set up and a heading to show sources of funds can be set up that is called "difference between in and out price of commodities."

(3) The "sales" heading may be changed by construction industries to "project final accounting;" transportation enterprises may change it to "income from transportation;" and businesses and the service trades may change it to "business income."

(4) Agricultural and livestock raising enterprises can use headings such as "grain withheld for production" and "young livestock and livestock being fattened" etc.

This makes it possible for industrial enterprises both to have a fairly complete system of headings and allows other trades to have headings that are equivalent to those used in industrial enterprises, with plenty of room for selection of specialized headings.

To summarize the foregoing, in the course of improving the accounting system, it is necessary both to remember that the equipment in most township and town enterprises is rudimentary, techniques outmoded, information slow to filter down, and blindness in production very likely. It is necessary also to take into consideration the development of township and town enterprises' independent accounting, responsibility for their own profits and losses, no eating "out of a large common pot," small investment required, low operating expenses, strong competitiveness, considerable self-determination, "the ability to turn around a small boat quickly," and ease in responding to market demand. The use of accounting and bookkeeping, strengthening of management and

sorting into categories to conduct supervision, can satisfy the needs of the state above for reporting of macroeconomic indicators, and meet the needs of economic activity for all trades and industries below to promote the healthy development of township and town enterprises.

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CS0:4006/298

ECONOMIC MANAGEMENT

PROBLEMS OF CAPITAL GOODS PRICES, MACROECONOMIC MEASURES

Beijing JIAGE LILUN YU SHIXIAN [PRICE THEORY AND PRACTICE] in Chinese No 1, 20 Jan 86 pp 9-14

[Article by the Price Group of the Economic, Technical and Social Development Center of the State Council: "Concerning Problems of Capital Goods Having Two Different Prices and Macrocontrol Measures--An Investigative Report on Shijiazhuang, Wuhan, Changsha and Guangdong Provinces"]

[Text] I. Major Problems of Having Two Different Prices for Capital Goods

China now has two different prices for all major industrial capital goods, namely, planned prices and unplanned prices. The main problems brought about by this pricing system are as follows:

First, disruptions to the enterprises' normal operations. The removal of restrictions on the unplanned prices of the capital goods has given rise to a wave of price fluctuations. Many enterprises have reported that since last year, they have constantly received notices from the higher authorities or the cooperating enterprises concerning price increases of a somewhat compulsory nature. As a result, they found it difficult to exercise cost control, quota management and cost accounting. The price of a 4-meter vertical lathe produced by the Wuhan Heavy Machine-Tool Plant was originally set at 550,000 yuan after consultation with the customer. Because of the continued increase in the prices of pig iron, rolled steel, electrical machinery and roller-bearings, the production cost rose to 860,000 yuan. The loss from its production of extra-heavy machine tools has created great difficulties for the enterprises' business operations.

Second, planned supplies handicapped by the unplanned sales by the producers themselves. Since the unplanned prices of rolled steel and pig iron exceeded the planned prices one- to two-fold, and may increase the profits more than 10-fold, these attractive economic benefits have prompted many production enterprises to try every means to increase their own sales and to use their planned products for unplanned sales. That is why their execution of orders is unsatisfactory and failure to honor contracts is on the increase. Planned targets are now subject to a discount, and the consumers are forced to purchase raw materials at higher prices to maintain their production. Thus the seeds were sown for a universal price inflation. To meet their increased

outlay, when the prices of planned products could not be raised, the enterprises had to increase the portion of products to be sold by themselves at negotiated prices by squeezing something out of the production plan. This is the measure used by the enterprise to preserve its own interests and the measure which actually raised the ex-factory prices.

Third, the difficult problem of reselling for profits and the hoarding of capital goods in hot demand. Because of the two different prices of capital goods and the removal of restrictions on the transactions and the prices of above-quota capital goods, many trading companies, "centers," and sales agents have participated in capital goods dealings. In 1983, according to statistics compiled by the industrial and commercial departments, Guangdong Province had 2,010 units in charge of capital goods; in June 1985, this number was increased to 3,173, a 58 percent increase. Besides the units regularly in charge, there were even more units concurrently in charge. The links in the planned supply of capital goods have increased instead of diminishing, and each link provides the opportunity for price increase. Some administrative departments in charge working for their own gains have sold at increased prices those raw materials which should be supplied according to plans and at low price. Because of the many links involved, many planned capital goods were sold at unplanned high prices through various channels. Furthermore, a fairly large portion of the above-quota capital goods out of the production enterprises were sold at low, or only slightly higher prices (in exchange for the capital goods in hot demand, transportation facilities and electric power supply, or as a favor to some service companies run by the sons and daughters of these enterprises.) These capital goods could be sold later by the labor service companies through various channels at even higher prices. Under these conditions, the new intermediate links can hoard up large amounts of capital goods in hot demand and use them as "hard currency" to buy other materials. The increase in hoarding prevents the timely utilization of capital goods in production and circulation, resulting in a man-made strain on the supply-demand relationship.

Fourth, the large increase in the costs and prices of many industrial products. The supply of energy and raw materials in China consists of two portions, namely, the portion that is centrally distributed and the portion that is regulated by the market. The ratio of the latter has gradually increased in recent years and accounted for 30-50 percent of the materials used by many enterprises. Before February 1985, the state restricted the prices of energy and raw materials with administrative measures supplemented by price check-ups. These prices were held at a level slightly higher than that of state allocation (an upward float of about 20 percent). These prices soared rapidly after the removal of these restrictions in February. According to a rough estimate, about 30 percent of the major capital goods actually used in various localities were not included in the plans, and their prices more than doubled those of state allocation. From this, we may deduce that the general price level of the major capital goods in August 1985 would have been higher than at the beginning of the same year by more than 30 percent.

According to the market information we have on hand, the prices of machinery and other products of the processing industry have actually risen far above average. Since a fairly large portion of the products of the processing

industry are for civilian consumption, the increase in raw material prices also means an increase in the prices of light industrial product. For example, the market prices of pig iron and aluminum ingots have more than doubled the state allocation prices, and it would be difficult for the producers of frying pans and aluminum utensils to absorb this price increase. Unless the supply of low price materials is increased or subsidy is forthcoming, these producers would be forced to increase the prices of their own products, to suspend their operation, or to switch to some other line of products (some frying pan factory in Guangdong have already suspended their operation) with direct effects of the market stability.

II. Positive Effects of Removing Restrictions on Capital Goods Prices

For various reasons, the readjustment of the unduly low capital goods prices has long been in arrear. Under such conditions, removing restrictions on the prices of unplanned capital goods has also its merits.

First, the upward floating of above-quota production goods has stimulated the development of energy and raw material production. In 1984, for example, Hebei's planned output of rolled steel was 3.47 million tons, and the actual output was 4.06 million tons, a 13.7 percent increase over the previous year. Its planned coal output was 5.5 million tons, and the actual output was 7.43 million tons, a 19 percent increase over last year. In the first half of 1985, compared with the same period last year, the rolled steel output again increased 14.1 percent, the coal output increased 27 percent, and the soda ash output increased 58 percent.

Second, it encouraged the energy and raw materials production enterprises to raise funds for technical transformation in the energy and raw material industries. In 1984, for example, the Xiangtan Iron and Steel Plant produced 480,000 tons of steel and 390,000 tons of rolled steel. Because of the lack of supplementary facilities for its productive capacity and the backward equipment used, this plant was in urgent need of technical transformation, and an estimated investment of 290 million yuan was required in the Seventh 5-Year Plan. However, the required funds could not be available readily. Since the removal of restrictions on the prices of above-quota capital goods in 1985, this enterprise was able to raised huge funds mainly through these channels: 1) 20 million yuan raised from the sales of its own above-quota rolled steel; 2) 5 million yuan from joint ventures with other plants dealing in rolled steel in and outside the province; and 3) 12 million yuan from tax reduction and exemption for the 30,000 tons of above-quota rolled steel handed over at the price of 1,350 yuan per ton to the provincial authorities for distribution. A total of 37 million yuan was raised through these three channels. Then with the addition of energy conservation funds, loans in lieu of state allocations and so forth, most of the funds required for this plant's technical transformation was raised. After the technical transformation, its steel output in 3 years may reach 700,000 tons and its rolled steel output may reach 560,000 tons, an increase of 46 percent and 44 percent over 1984 respectively, according to an estimate.

Third, the market prices have provided a new set of accounting standards and promoted the readjustment of the investment structure. The prices of energy and raw materials in China have been low for many years. Since the production

cycle for these products was long, the investment returns were poor. Furthermore, most of the sporadic investments were used on the processing industry instead of the energy and raw material industries. In the past several years, however, vigorous economic development took place in various regions, and the demand for energy and raw materials were greatly increased. Because of the inadequate supplies, many local governments have stepped out to organize joint investments in the development of energy and raw material production.

Since last year, when the state formally decontrolled the prices of above-quota capital goods, the unplanned prices of all products in great demand were about doubled. This new price level now serves as the accounting standard. Because the mandatory plans generally will not be increased, all new capital goods can be sold at the market (or higher) prices. Under these conditions, the profit rate for these new investments is far higher than the average social profit rate, and the high profits have attracted funds to the heavy industry. At present, multiregional and multidepartmental investments in raw materials are now gradually increasing along with the increase in investment in local iron and steel plants. Many small blast furnaces have appeared in Shanxi along with the small iron smelting plants and small steel-rolling factories in some southern provinces and cities. The great enthusiasm of so many localities in setting up their own iron and steel plants indicates that the investment returns from short-supply goods are much greater than from ordinary products. However, because of the lack of planning, the failure to take resource conditions into account, and the tendency toward blind production, stronger measures in planning and guidance are urgently needed.

Fourth, the use of resources from foreign markets is now accelerated. For its economic development, China needs the industrial capital goods that are now in short supply, such as rolled steel, pig iron and aluminum ingot and the production of these items requires high energy consumption. If possible, more foreign resources should be utilized in order to satisfy domestic wants. In the past, however, the planned prices of rolled steel and some other products were rather low, while the imported rolled steel was expensive. That was why very little was imported by the localities except with state subsidy. The relationship between supply and demand in the country still could not be regulated. Since last year, the gap between the two prices for rolled steel and some other products has been widened, and selling unplanned capital goods at markedly higher prices has become increasingly common (particularly in Guangdong and some other places). The dealing in raw materials has thus become more profitable and given an impetus to the direct importation of rolled steel and other products. The increased use of foreign resources has helped a great deal in regulating the relationship between supply and demand in the country and also played a positive role in checking the rise of unplanned prices.

III. The Question of the Enterprise's Capability To Withstand Pressure

In the course of the reform of capital goods prices, the enterprises' capability to withstand heavy pressure is an important restraining factor. From our observations, most enterprises have this capability to a certain degree. Generally, the enterprises that operate efficiently with strong

vitality have good capability, while those enterprises which rely on their "iron rice bowls" and are poorly managed have poor capability. In Hubei, for example, according to an analysis of the data of the provincial statistical bureau, since the second half of 1984, there has been a general increase in the prices of the major types of industrial and agricultural raw materials, but the increase in the prices of processed products was comparatively less. In 1984, the net increase in the prices of the products of 1,776 industrial enterprises included in the budget amounted to only 37.3 percent of the net increase in the expenditures caused by the increase in raw material prices, and the net increase in the expenditures of all industrial enterprises in the budget in the province amounted to 153 million yuan. Despite these changes in prices, and particularly the increase in raw material prices, the industrial enterprises throughout the provinces have been able, through their own efforts, to withstand the pressure of the increased prices. In 1984, the industrial enterprises in the budget increase both their production and their income. Their income was increased by 380 million yuan which, after offsetting the increased expenditures caused by the price and other factors, still left a net profit of 182 million yuan, an 11.2 percent increase.

Increased production, as the primary factor in increased income, also played an important role in withstanding and absorbing the pressure from price fluctuations. In 1984, the increased income of the enterprises in the budget throughout the province derived from increased production amounted to 213 million yuan, 55.6 percent of the total amount of increased income, and 1.4 times the increased expenditures caused by the price changes. The second factor is improvement in the varieties, structure and quality of products. In 1984, the province had 2,525 new products, and the proportion of fine-quality industrial products was increased from 8.4 percent in the previous year to 12 percent, and again to 17 percent in the first half of 1985. The increased income of the enterprises in the budget from this source amounted to 100 million yuan, 26.17 percent of the total increased income. The third factor is technical innovation and energy conservation. In the province, the increase in the consumption of the major raw materials in industry including coal, petroleum, electricity, rolled steel and pig iron was slower than the industrial growth, because of the reduced raw material consumption in most units. This factor enabled the enterprises in the budget to reduce their production costs by 69.75 million yuan, 18.2 percent of the total increase attributed to all the factors and 45.7 percent of the increased expenditures incurred from the changes in the prices of raw materials.

There are marked differences in the capability to withstand and absorb pressure among different departments and enterprises.

The departments and enterprises under the first category usually enjoy brisk sales and can usually withstand and absorb the pressure from the increased raw material prices. These departments and enterprises are of two different types. When the prices of the raw materials used by those of the first type were increased, the prices of their products were also increased by the same or even a wider margin. Thus the pressure of the increased prices of their raw materials was passed on to other departments or enterprises, or to the consumers. In 1984, for example, the increase in the prices of raw materials used by 64 metallurgical enterprises in the province amounted to 103.05

million yuan, while the increase in the prices of the rolled steel, pig iron and other metal materials they produced amounted to 102.59 million yuan, the two amounts being almost equal. Again in 1984, the increase in the prices of raw materials used by the the Jingmen Oil Refinery and the Wuhan Petrochemical Industrial Plant amounted to 1.52 million yuan; but the increase in the prices of their products accounted for a total of 59.84 million yuan which not only absorbed the pressure from the increased raw material prices, but also yielded an additional gain of 58.32 million yuan, 52.8 percent of the profits and taxes realized. Among those of the second type, the increase in the prices of their own products was far less than the increase in the prices of their raw materials. Mainly by increasing their output, improving the quality and varieties of products and reducing energy and raw material consumption, these department and enterprises were able not only to absorb the increased raw material prices but also improve their economic results. For example, the increase in the prices of raw materials used by 396 machine-tool enterprises in the provinces amounted to 40.67 million yuan, but the increase in their products' prices amounted to only 12.94 million yuan. The margin of increase in the prices of raw materials was 3.1 times that of their products, but the enterprises' profits in that year increased by 60.98 million yuan, a 32 percent increase over the previous year.

The sales of the departments and enterprises under the second category were sluggish. When the prices of their raw materials were raised, the prices of their products were also lowered. They were thus under double pressure. These departments and enterprises are of two types with regard to their capability to withstand pressure. Those of the first type mainly relied on their own efforts to increase production and practice economy, so that they could make up for their small profit margin with large turnovers and thereby withstand the pressure from the increase in raw material prices. For example, the prices of raw materials used by 531 light industrial enterprises in the budget (in the first and the second light industry) were raised by 14.55 million yuan, and the prices of their products were reduced by 12.73 million yuan. These two amounts added up to 27.28 million yuan. These trades made every effort to improve the quality of their products, increase their varieties, and lower their expenses and consumption. Their income was increased by 17.56 million yuan. Their increased output also added 20.88 million yuan to their income which then totaled 38.44 million yuan. After offsetting the increased outlay for the price changes, the whole sector still made a profit of 11.16 million yuan, and the total profit realized was 14.3 percent higher than in the previous year. The departments and enterprises of the second type had a decline in their output and found it difficult to withstand this double pressure. In 1984, for example, the prices of raw materials used by 159 textile enterprises in the budget were increased by 25.58 million yuan and the prices of their products were reduced by 34.45 million yuan. Their income was thus reduced by 60.03 million yuan. By reducing consumption and improving the varieties and quality of their products, they managed to increase their sales proceeds by 21.56 million yuan, which, however, accounted for only 35.9 percent of their reduced income.

From this analysis, we can see that most of the present enterprises are able to withstand and absorb the pressure from the increase in raw material prices to varying degrees depending on how easily can their products be marketed and

by what margin can their output be increased. It shows that a balanced economic structure and an appropriate speed of economic development are the necessary conditions for the price reform.

IV. How To Solve the Problem of Two Different Prices for Capital Goods

The two prices of capital goods is an extraordinary form of China's price reform. This form has many defects. The present problem is that the difference between the planned and the unplanned prices of raw materials is too large, and that the increase in unplanned prices of products is excessive. The direct causes of this situation are as follows: First, the planned prices of products are too low and have not been readjusted. Second, the contradiction between the supply of and the demand for capital goods is too serious, with its roots in the excessive expansion of the scale of capital construction. Third, there are too many nonregular intermediate links in the sphere of circulation, and the prices can be increased at every level. Hence the excessive price inflation.

To solve the problem of two different prices of capital goods, there are three programs of action to be chosen now. First, a large-scale and comprehensive price readjustment. This program was discussed in 1984, but could not be acted on because of the wide range of issues involved and the many opposing views. Second, the removal of all restrictions. This program cannot be carried out in view of the general increase in demand and the possibility of a general increase in prices. Third, allowing these two prices to continue while appropriately increasing the speed of regulation and removing undue restrictions. This program will be easily accepted by the society and is practicable under the existing economic conditions.

It must be pointed out that the "double-track system" in the pricing of capital goods must not be confused with the "road of grain and edible oil," and that we cannot "cast away the burden" and let things take their natural course. Agricultural products are different from industrial products in many respects. First, the increased prices for above-quota procurement concerns the relationship between the state and the peasants, and the support for the continued increase in above-quota procurement at increased prices comes from the state treasury. Therefore, increased prices for above-quota procurement mean only an increase in grain price but do not basically affect the cost of other products. Second, the varieties of products for above-quota procurement at increased prices are not many. They are mainly grain, edible oil and cotton, and the state has always exercised strict control over their procurement so that illegal dealings on a national scale would be difficult. Third, the reproduction cycle for the staple agricultural products, such as grain, is fairly brief and the price increase can be a fairly strong incentive to production.

A comparison of the price reform for agricultural products with the price reform for industrial capital goods, and particularly the raw materials, will show many differences. First, the additional funds required as a result of the increase in the prices of industrial capital goods come from the consumers instead of the state treasury. They affect the relationship between enterprises without involving the state. That is why the increase in the

price of an important product usually affects the production costs of many products followed by a sweeping chain reaction. Second, industrial capital goods are of numerous varieties. They are supplied to the enterprises throughout the country and the management is quite complex. When their circulation involves many units, illegal or fraudulent transactions are apt to occur and difficult to supervise or control. Third, the major capital goods, such as rolled steel which require long production cycles, can only be supplied in limited quantities within short periods. When the contradiction between supply and demand is acute, relaxation of control would bring about the skyrocketing of prices.

Because of the important difference between industrial capital goods and agricultural products and the need to practice the "double-track system," it is necessary for the state to attempt various forms of regulation so as to eliminate the defects and preserve the merits and to solve the problem created by the coexistence of two prices. It should also create the necessary conditions for the two prices to merge into one.

V. The Macroeconomic Measures To Be Adopted

First, the increase in demand should be resolutely restricted. Increase in the general demand is the root cause of the soaring prices of unplanned capital goods. Unless this problem is solved, not much headway can be made in the reform of capital goods prices. The tightening measures adopted by the state may cause certain hardship among some enterprises and may even force some of them to suspend their production. This should be viewed as a calculated risk, and every precautionary measures should be taken. However, we must not allow this risk to shake our determination to take the required measures.

We must be aware of one important point. The localities mostly rely on the bank for investment. After the tightening of the money supply, there is now the vogue of fund raising by getting around bank supervision or control. Some local governments have also raised funds by apportionment in a desperate effort to get some capital construction project started. Some appropriate action should be taken in dealing with this situation; otherwise, it is quite possible that while the bank is controlling its credit, huge funds are raised in other ways to create new demands and thus to nullify the state's efforts in controlling the general demand.

Second, there must be the determination to readjust the prices of capital goods, which are now too low, at least once a year. The prices of many capital goods in China are still too low, and their examples can be found in the cement of large plants, the coal that is centrally distributed, petroleum, caustic soda, soda ash, electricity, some rolled steel, pig iron, aluminum ingots, mineral ores, and so forth. To expedite the price readjustment in an appropriate way, we must readjust the prices of the centrally distributed capital goods according to the capability of the national economy at least once a year, besides continuing to decontrol whatever should be decontrolled. The margin of readjustment for the products in hot demand, such as wire rods,

should be wider in order to resolve the contradiction between supply and demand more quickly. At the same time, it can restrict the blind expansion of the capital construction scale to a certain extent.

Third, measures should be taken to increase the supply of capital goods which are now short of the demand. To solve the present problem of two prices of capital goods, we should, on the one hand, gradually raise the planned prices which are too low, and on the other hand, gradually lower the market prices to a reasonable level. We cannot use such administrative methods as setting ceiling prices to lower the market prices, because the existence of the many channels of trade transaction would render these methods ineffectual. The key to the solution lies in a balanced supply and demand. Therefore, we must encourage the increase in investment among some trades so that they may develop at an unprecedented speed. At present, the market prices of some capital goods in short supply have sounded a clear signal for investment, and multidimensional investments have begun to flow into the coal, iron and steel trades. However, the tightening of the money supply may restrict these investments. To bring about an early balance between supply and demand, some special loans for the development of energy and raw materials should be granted within the quotas set by the central and provincial governments. If the localities raise funds to develop the capital goods in short supply, the state may support them even by paying their loan interests. Furthermore, we may consider allowing the large and medium raw material producing enterprises to float high-interest bonds or to sell stock certificates so that more social funds can be used by the enterprises producing good economic results. On the whole, macroeconomic control must be coordinated with structural readjustment so that the former will not strangle the latter.

Fourth, we must clear the channels of circulation and reduce the intermediate links. As mentioned earlier, an important cause for the continued increase in capital goods prices is the obstacles to circulation and the existence of too many intermediate links. A basic way to solve this problem is to eliminate some of these intermediate links by adopting new and more efficient methods of trading. One method open to our choice is the establishment of a capital goods exchange market. The nature of this type of market is different from that of the trade center we now have, because it does not take part in capital goods exchanges. Instead of making profits out of these transactions, it provides the site, information and communications services for the convenience of the buyers and sellers. This exchange market should function in coordination with the government's industry and commerce administration and price administration organs in providing the necessary supervision and in notarizing each transaction. These capital goods exchange markets can be set up in the vicinity of the major production enterprises in the large cities, and branch markets may be set up in medium and small cities according to their conditions. These markets set up at different levels will combine to form a network to facilitate material exchange.

Special wholesale dealers play a supplementary role for these exchange markets. The state should review the present business units and then determine the number of these special wholesale dealers. These dealers should be selected through public bidding, and all the business units having passed their qualification examination are eligible for the bidding. Only the

successful bidders can exercise their rights as capital goods wholesale dealers, and no other unit whatsoever can meddle in their business. In order that the producers and the wholesale dealers can be attracted to the exchange market, the state must at the initial stage formulate the necessary laws or regulations, requiring, for example, that the above-quota capital goods of the enterprises be sold publicly on the exchange market with compulsory procurement by the supplies department as the only alternative. These laws or regulations may also stipulate that transactions outside this market are illegal and liable to complete confiscation, once they are detected. When the functions of capital goods exchange markets have gradually become regular and the volume of transactions as well as the number of participating units continue to increase, these exchange markets' power of attraction will also be enhanced.

Fifth, in order to open and develop these capital goods exchange markets and to control the prices, starting this year, 2 million tons of rolled steel should be appropriated out of the central distribution plan each year to be sold on the exchange market. If all the restriction on the prices of mechanical and electrical appliances are removed in 1986, then the centralized supply of raw materials to the machine-tool trade should be discontinued, and these raw materials should be sold at negotiated prices.

Sixth, taxation should be coordinated with the price reform. For the income of the enterprises from the sales of their capital goods at high prices, the state should decide on the proportion of profit to be retained by the enterprises according to different conditions. Generally, the old enterprises should retain more. The retained profits should be governed by certain regulations so as to ensure that they are used on technical transformation and not as consumption funds.

Seventh, the interest rates on loans should be raised to induce the enterprises to accelerate the turnover of funds, to reduce their stocks of raw materials, and to resolve the contradiction between supply and demand on the capital goods market.

The implementation of these measures must be based on our acceptance of the fact that the existence of a two-price system cannot be avoided for the time being, while, at the same time, we must actively create the conditions for the early transition to a one-price system. Since these measures involved on a wide range of issues, we must conduct specific and in-depth research before submitting our ideas and propositions for the reform of capital goods prices during the Seventh 5-Year Plan.

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CSO: 4006/872

FINANCE AND BANKING

NEW RULES ISSUED ON CONTROL OVER, TAXATION OF BONUSES

Beijing SHANGYE KUAIJI [BUSINESS ACCOUNTING] in Chinese, No 9, 10 Sep 85 pp 6-7

[Article by Wang Bingfeng [3769 3521 6912]: "Calculation of New Bonus Taxes and Control of Amounts of Bonuses"]

[Text] "Temporary Regulations For Taxes on Bonuses in State-owned Enterprises," which was published in a revised version by the State Council on 3 July 1985 provides as follows: All state-owned enterprises that have not yet instituted a floating total wage linked to economic results must pay taxes on state-owned enterprise bonuses in accordance with this regulation for all kinds of bonuses issued. Excess progressive tax rates are to be applied to taxes on bonuses and calculated by the year for collection. Graduated tax rates are as follows: If the total amount of bonuses awarded for the whole year does not exceed 4 months standard wages, there is no tax; that portion of the total amount of bonuses for the whole year that is greater than 4 and up to 5 months wages is to be taxed at a 30 percent rate. That portion of the total amount of bonuses for the whole year that is greater than 5 and up to 6 months standard wages is to be taxed at a 100 percent rate. That portion of the total amount of bonuses for the whole year that is greater than 6 months standard wages is to be taxed at a 300 percent rate. The regulations also provide that when the accumulated amount of bonuses to be issued by an enterprise for the whole year are greater than standard wages for 4 months, before issuing the bonus the enterprise is to first determine how much bonus funds are available and then calculate how many months of standard wages the bonus fund equals after which payments should be made on the basis of the amount of bonus funds available. The enterprise should also determine the maximum amount of bonuses that can be paid for the whole year because the taxes to be paid on bonuses are also to be listed as part of the "employee bonus fund." Two problems are discussed as follows;

1. How to Simplify the Calculation of Taxes on Bonuses

1. When the total amount of bonuses issued for the whole year are greater than standard wages for 4 months and up to 5 months:

Amount of tax to be paid = total amount of bonuses for the whole year x 30% - 4 x standard monthly wages x 30%

Business unit's number of personnel in unit x annual bonus per person
 bonus per 100 ----- X 100%
 yuan of sales unit's annual profit quota / unit's profit rate

Once management has calculated the amount of bonus per 100 yuan of sales and the figures have been examined and approved by the leaders, they are to be sent to the business unit for action.

1. Issuance of bonuses by business units should be 50 percent for perfect attendance and 50 percent for sales.

2. Criteria for limit rates commodity funds and kinds of dealings should be increased or decreased in accordance with set proportions on the basis of how well quotas have been fulfilled.

3. Only when business units have fulfilled 90 percent or more of sales quotas may they receive bonuses. Sales quotas may normally be no less than actual performance during the previous year.

4. Product appearance, environmental sanitation and service attitude of business units are to be considered and inspected in accordance with prescribed requirement standards, with bonuses being increased or decreased on the basis of the results of evaluation.

5. In this way, criteria for a shop's sales, profits, numbers of personnel, limit rate, product funds and kinds of dealings become the responsibility of the shop itself and are closely linked to the welfare of staff members and workers. (The first three items named are in the formula that the business unit is to use for figuring issuance of bonuses. The last three items named are to be examined against prescribed standards, bonuses being increased or decreased on the basis of the results of examination). Since implementation, major demonstrated advantages have been as follows:

1. After the earlier method of linking profits and bonuses in calculation of bonuses was changed to "linking of sales to the calculation of bonuses," every business unit has been able to know at all times what progress has been made in fulfilling sales quotas and how much should be received in bonuses. This has been of help in taking corrective action at once when discrepancies have come to notice, in making efforts to catch up, and in striving to overfulfill quotas.

2. The figuring of bonuses on the basis of each 100 yuan of sales has, because of the simplicity of procedures, greatly reduced the volume of work required of business units in making calculations, and it has helped reduce the work load of operating personnel.

3. Inasmuch as the amount of bonuses to be distributed per 100 yuan of business unit sales is figured in terms of the per capita amount of bonus funds to be distributed by each business unit of a shop, this solves the problem of inequities resulting from price differences for products sold and the amount of profit earned, and it has given strong impetus to the enthusiasm of units dealing in small products. From January through May 1985, volume of business of small product units increased 1.2-fold over what it had been in 1984, providing greater convenience to the public.

1. When amount of bonuses distributed for the whole year is more than standard wages for 4 months and up to 5 months, the tax to be paid on the bonus = total amount of bonuses distributed for the whole year x 30% - standard wages for 1.2 months.

2. When amount of bonuses distributed for the whole year is more than standard wages for 5 months and up to 6 months, the amount of tax to be paid on the bonus = the total amount of bonuses distributed for the whole year x 100% - 4 x standard monthly wages - standard monthly wages for 1 month x (1-30%) = the total amount of bonuses distributed for the whole year - 4, which is standard wages for 7 months.

3. When amount of bonuses distributed for the whole year is more than the standard wage for 6 months, the amount of tax to be paid = the total amount of bonuses distributed for the whole year x 300% - standard wages for 1 month x (300%-30%) - standard wages for 1 month x (300% - 100%) = the total amount of bonuses distributed for the whole year x 300% - standard wages for 16.7 months.

For example, a certain business has 120 employees whose wages average 60 yuan per month per person. (Note: The Temporary Provisions on Bonuses rule that when the average wage is less than 60 yuan per month, 60 yuan will be used in calculations.) Figuring total standard wages for the business at 7,200 yuan per month, if the business wants to distribute its entire bonus funds of 45,000 yuan for the whole year, that will come to 6.25 months of standard wages. Calculations using the above formula yield the following:

Taxes to be paid on bonus = 45,000 x 300% - 16.7 x 7,200 = 14,760 yuan.

2. How to Find Out the Limit on Bonuses That Can Be Distributed

1. If employee bonus funds withheld for the whole year have not been greater than or equal to 4 months standard wages, the whole amount may be taken as the limit for bonus disbursements for the whole year.

2. Only when employee bonus funds withheld for the whole year are as much as 5.3 months of standard wages may a 4 to 5 months bonus be disbursed for the whole year. Because that portion of the bonus for the whole year that is not greater than standard wages for 4 months is exempt from payment of taxes, and since that portion that is greater than standard wages for 4 months and up to 5 months is taxed at 30 percent, the limit on bonus

disbursements for the whole year = standard wages for 4 months + standard wages for 1 month $\times (1 + 30\%)$, which is standard wages for 5.3 months.

3. When the employee bonus funds withheld for the whole year amount to 7.3 months of standard wages, only then may a 5 to 6 month bonus be distributed for the whole year. The reason is the same as for the paragraph next above. That portion that is greater than standard wages for 5 months and up to 6 months is taxed at a 100 percent rate; hence the limit on bonuses to be distributed for the whole year is standard wages for 5.3 months + standard wages for 1 month $\times (1 + 100\%)$ = standard wages for 7.3 months.

4. If bonus funds withheld from employees for the whole year are greater than "standard wages for 7.3 months," then for every 4 yuan of bonus funds available, an additional bonus of 1 yuan may be distributed.

Let us use the previous example once again. A certain business' standard monthly wage payments are 7,200 yuan. If 45,000 yuan has already been withheld from employees as a bonus fund, this will be equal to standard wages for 7.5 months (54k,000 divided by 7,200 = 7.5), meaning that it is 1,440 yuan more than standard wages for 7.3 months (54,000 - 7,200 \times 7.3 = 1,440 yuan). Figured on the basis of the above formula, in addition to the distribution of a bonus for 6 months, an additional bonus of 360 yuan may be distributed (i.e., 1,440 divided by 4 = 360).

A look at the two foregoing problems shows that though the State Council has abolished "no cap" on the bonuses that businesses may distribute, this is not the same thing as placing a limit on them. Adoption of a system of paying taxes on bonuses is an effective way in which to control increases in distributions of bonuses. Moreover, it is not the person who receives the bonus that pays the taxes but rather the unit that distributes the bonus. The regulations explicitly provide that should a unit delay the filing of tax payments, it is to be punished severely. If necessary, taxes to be paid and fines may be garnished from settlement accounts held in banks. In his "Government Work Report" delivered to the 3d Session of the NPC, Premier Zhao Ziyang said, "Steady rise in the standard of living founded on increases in production is the goal of socialism, and it is also an important principle in our economic work. ...entrepreneurial units should accurately handle the proportional relationship between accumulation and consumption in the distribution of earnings." At the end of 1984, in particular, there was an upsurge in unhealthy tendencies when some enterprises recklessly handed out bonuses, subsidies and material goods in utter disregard for the overall interests of the country. This resulted not only in loss of control over consumption funds, which adversely affected market prices, but also made it difficult for enterprises to find funds to pay taxes due on bonuses. It also seriously damaged the Party's programs and policies and adversely affected the four modernizations. The CPC Central Committee and the State Council acted promptly, deciding to use administrative, economic and legal means to halt these unhealthy tendencies. Its revision and publication of "Temporary Regulations For Taxes on Bonuses" was an economic means. Thus, we must earnestly pursue the country's methods for controlling and managing bonuses, and calculate strictly in accordance with regulations the taxes to be paid on bonuses.

FINANCE AND BANKING

QUESTIONS, ANSWERS ON RURAL INDUSTRIAL CREDIT

Beijing ZHONGGUO XIANGZHENQIYE BAO in Chinese 8 Mar 86 p 3

[Summary of interview with a responsible official of Agricultural Bank of China's Credit Department by reporter Chen Xuan [7115 5503]: "Questions Concerning Rural Industrial Credit"; date, and place not given]

[Text] The Agricultural Bank of China has recently publicized the "Provisional Regulations on Rural Industrial Credit." In order that the town and township enterprises may correctly understand, interpret and closely abide by the stipulations, our reporter had an interview with a leading comrade of the credit department of the Agricultural Bank of China and asked him to explain and answer several specific questions concerning the "Regulations." A summary of the questions and answers is as follows:

Question: Please tell me about the meaning and purpose of the "Provisional Regulations on Rural Industrial Credit."

Answer: The purpose of the "Regulations" is to implement the principle of "active support, rational planning, correct guidance and more active management" laid down in the party's Proposal for the Seventh 5-Year Plan, for the rural industry to develop according to its own capability or by relying mainly on its own accumulation; to control the rural industrial credit effectively; to support the sustained, steady and harmonious development of the rural industry; and to invigorate the rural economy.

Question: To what are the "Regulations" applicable, and what is the scope of their application?

Answer: The "Regulations" are applicable to rural industry (meaning the collective industry, construction industry, and communications and transportation industry run by the towns, townships and villages), and the joint-household industry (meaning the collective industry of a cooperative nature). The joint-household industry or individual industry of a noncooperative nature will be supported and controlled by the banks and credit cooperatives in the form of agricultural side-line production loans.

Question: Under what conditions are enterprises eligible for credit?

Answer: Enterprises are eligible for credit under the following conditions:

1. The enterprise must be a legal entity and in possession of a business license issued by the industry and commerce administration. For building a new enterprise, there must be a permit for the construction plan. The application must be first approved by the department in charge.

2. The enterprise must have the minimum decisionmaking power in production, business management and the disposition of funds. It must also have independent accounting and the leadership and managerial personnel with business and technical expertise. Furthermore, it must have its own funds of the required proportion, which it can manage permanently and which are unencumbered by other debts, a system of profit distribution, and some source of fund replenishment in the event of losses.

3. The enterprise must have sound financial, accounting and reporting systems, open an account in the Agricultural Bank, and report the relevant data according to regulations.

4. There must be guarantees for the redemption of its loans. The enterprise applying for credit must have suitable and easily marketable materials as security, and a unit of good economic standing to guarantee its redemption of loans.

Question: How many types of loans are there and what are their time limits?

Answer: The loans are of the following types:

1. Circulation fund loan. This is intended for those enterprises which are short of circulation funds for production and business operation. This loan is again divided into three types:

a. Capital loans. An enterprise should have 60 percent of the circulation funds for its quota assets. If its own funds are not up to the required 60 percent, it must be made up within a time limit. If the enterprise is unable to do so, it can apply for a capital loan as a solution to its problem. The time limit of capital loans for old enterprises put into operation before the end of 1983 is in principle up to the end of 1986; for the enterprises put into operation after the end of 1983, the time limit should in principle be 1 more year. In applying for a capital loan, the enterprise must submit its plans of replenishing its circulation funds within these time limits.

b. Limited loan. This type of loan helps the enterprise fulfill its production and business plans of the current year when it reasonably requires more funds than can be provided by the normal circulation loans. The amount of loan is reviewed once every year or every quarter, and the amount within limit can be used as circulation funds. The time limit of this loan is based on the number of days required for the production funds' turnover. Before the determination of the time limit, the enterprises must submit realistic and reliable plans of production and marketing, as well as the plan for returning any funds that have been improperly used.

c. Temporary loan. This loan is intended for temporary financial needs arising from the seasonal effects on the purchase of raw materials or the

marketing of products or from the centralized purchases of raw materials. Its time limit is based on the period of raw material consumption or the period of seasonal marketing, but generally does not exceed 6 months. The enterprises applying for temporary loans must clearly specify the reason for its application and the time of redemption.

2. Fixed asset loan. This is intended for the enterprises in need of funds to expand, improve, or maintain their reproductive capacity. It is divided into equipment loans for new enterprises, technical transformation loans for old enterprises and overhaul loans.

Equipment loans for new enterprises are intended to meet the needs of new enterprises with insufficient funds for investment in fixed assets. The use of these loans are limited to the purchase of equipment and productive construction materials and for installation expenses. The loan's time limit is generally 1 to 3 years, but not more than 5 years. In applying for this loan, the enterprise must submit to the bank or the credit cooperative a detailed report on the raw material resources, energy supply, technical equipment, environment protection, business capability, the marketability and competitive strength of its products, the economic results, the sources of all funds, and the schedule of redemption. These loans can be granted only after the bank's examination and approval through the regular procedures.

Technical transformation loans for old enterprises. They are intended for enterprises in need of additional funds for their expansion or alteration, their equipment renovation, technical transformation, or other supportive facilities. These loans' time limit is generally 1 to 2 years, and not more than 3 years. In applying for this loan, the enterprises must report on how advanced are the equipment, techniques and technologies, the economic results, the sources of operating funds and the schedule of loan redemption. These loans can be granted only after examination and approval by the bank or the credit cooperative according to set procedures.

Overhaul loans. They are for enterprises with a system of overhaul funds, to be used when these funds turn out to be insufficient for the overhaul already started. The time limit cannot be more than 12 months. In applying for this loan, the enterprises must submit to the bank its plan to implement their overhaul funds system within the time limit.

Question: Which are the units to examine and approve the enterprises' applications for loans and what are procedures of application?

Answer: First, the applications for circulation fund loans and overhaul loans included in the fixed asset loans are mostly handled by the banks' county branches. The division of authority between the county branch and the bank, in which the enterprise has opened an account, to examine and approve these applications is determined by the county branch on the basis of the type of loan and the availability of funds.

Second, fixed asset loans must be controlled on the basis of the projects. Whether the branch banks, the central branches, the county branches, or the

business offices are authorized to examine and approve the loan applications will be determined according to the size of loans for the enterprise or the project.

Third, the system of loan contracts should be adopted. When an enterprise borrows money from a bank, both parties should sign a loan contract according to the "Regulations of Loan Contracts." These contracts will be binding after their legal execution, and no party can unilaterally alter or abrogate them. Any amendment or abrogation of contracts under extraordinary circumstances must be carried out according to the "Regulations of Loan Contracts." Should the enterprise (including any enterprises or projects under construction), which is financed by the loan, be suspended at any time, then in accordance with the relevant stipulations in the "Regulations of Loan Contracts," the bank has the authority to register, seal, freeze, or dispose of the borrower's movable and immovable properties according to law for the redemption of the loan. If these properties are insufficient for the redemption, the bank can demand the enterprise's department in charge or the loan guarantor unit to clear up the debt on behalf of the enterprise.

Question: Do the "Regulations" provide any specific measures of supervision and sanction.

Answer: Yes. To be sure that the loans are properly used, the bank, according to the "Regulations," has the right to supervise and check the enterprises' activities in production, financial management, use of funds, stocking of goods and investment in fixed assets. The enterprises should truthfully report on these activities and provide the facilities for the bank's work. To safeguard the legitimate interests of both the borrowing and the lending parties, the bank can apply credit sanctions against any unit or individual who has arbitrarily appropriated the funds or materials of the borrowing enterprises, or against the department in charge who has taken an excessive share of the enterprise's profits. Credit sanction can also be applied when circulation fund loans are used as investment in fixed assets; when fixed asset loans are used on nonproductive capital construction; and when the funds intended for the replenishment of the operating funds according to regulations are used to cover the unrealized profits and taxes or the business losses. The other conditions under which credit sanctions are applied are as follows: when the enterprise fails to work out effective plans for the active disposal of their overstocked goods and for the collection of overdue payments; when the enterprise changes its legal representative under the system of contracted responsibility; when the enterprise fails to approach the bank in time for the change of its legal representative and to liquidate its debts; and when the department fails to promptly repay the debts of an enterprise which has been closed down.

The sanction is applied mainly by charging penalty interests, stopping further loans, repossessing the funds that have been appropriated in violation of regulations, and terminating the credit privileges for all the enterprises under the jurisdiction of the department in charge which is at fault.

Question: What are the main differences between the newly proclaimed "Methods" and the original methods?

Answer: The main differences are as follows:

First, the types of loans have been increased in the "Methods" to suit the characteristics of different enterprises in the use of funds. The capital loan and the limited loan under the category of circulation funds are normally needed for the enterprise's production. With the addition of the enterprise's circulation funds, these two funds will be adequate for the enterprises rational requirements. When the amount has been verified, the loan can be finalized between the enterprise and the credit personnel, and the procedures of examination and approval can be reduced. The capital loan is treated as a separate loan mainly because some enterprises do not attach any importance to accumulation during the distribution of profits at present. The interest rate for this type of loan has been raised, and can be set within a 20 percent range at the discretion of the branch banks. The fixed asset loans are divided into three different types mainly for the purpose of raising the interest rate for the equipment loans of new enterprises. This rate can also be set at the branch bank's discretion within a 20 percent range.

Second, the enterprises are urged to accelerate their fund accumulation. Among the qualifications required for an enterprise to obtain loans, it is stipulated that the enterprise must have not only its own funds of the required proportion but also a profit distribution system. To obtain capital loans under the category of circulation fund loans, the enterprise must submit its plan of increasing its own funds up to the required 60 percent within the time limit. The interest rate for this type of loan is higher. For credit sanction, it is stipulated that the department in charge or any individual who has arbitrarily appropriated the enterprise's funds and materials, or takes an excessive share of the enterprise's profits; and the enterprise failing to replenish its own funds according to plan or to redeem the loans will forfeit their credit privilege.

Third, the economic responsibility of the departments in charge has become heavier. The "Methods" stipulate that the establishment of any new enterprises must be first approved by the department in charge which will assume the responsibility for the loans of the enterprise. In setting up a new enterprise or undertaking any technical transformation project for an old enterprise, the department in charge must submit a report on the suitability of the advanced technology and the possibility of good economic results. When the legal representative of an enterprise is changed under the system of contracted responsibility, the department in charge must see to it that these enterprises go through the required procedures with the bank. If the enterprise is unable to redeem its loans, the department in charge must be held responsible; otherwise, the bank or the credit cooperative has the authority to terminate all the loans of all the enterprises under its jurisdiction. Above all, the department in charge cannot arbitrarily appropriate the enterprise's funds, materials or profits, and must promptly make good the losses incurred by the enterprise.

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CSO: 4006/878

FOREIGN TRADE AND INVESTMENT

STRATEGIC ISSUES IN FOREIGN CAPITAL USE DISCUSSED

Changchun SHEHUI KEXUE ZHANXIAN [SOCIAL SCIENCES FRONT] in Chinese Vol 8, No 3, Jul-Sep 85 pp 29-34

[Article by Chen Yinfang [7115 5593 2658] and Zhang Yanguai [1728 1484 6311]: "The Importance Of Understanding Strategic Issues in the Use of Foreign Capital"]

[Excerpt] [1.] At the present stage, how do we go about mapping out a strategy of foreign capital use? Basically, by taking realities as our point of departure. There are two sides to realities. On the one hand, there are China's own circumstances, essentially the fact that we are a socialist nation and the world's largest developing country with a huge population. We are long on manpower but short on technical expertise and capital. We have a vast territory and abundant resources, but the nation is not evenly developed: while the coastal areas are relatively advanced economically, the interior is impoverished. Our resources have yet to be tapped, although our domestic market has tremendous potential. Right now we are riding the crest of a major reform to restructure the economic system in order to achieve a vital socialist economy. On the other hand, there are world realities: coexistence between socialist economic systems and capitalist economic systems, U.S.-USSR rivalry for world hegemony, and international tension. The 1980-82 world economic crisis has long receded, but Western nations have made only a shaky economic recovery and continue to be plagued by the problem of surplus capital and commodities. The USSR and Eastern Europe are also carrying out reforms. Many economically troubled Third World nations, whose growth has been sluggish, are burdened with mounting debts and frustrated by protectionism in and the technical monopoly of developed countries. Confronting them are the need to strengthen South-South cooperation, and the crucial task of transforming the old international economic order. They too are turning to foreign capital. Over the past 20 years, economic growth in the Pacific region has been faster than that anywhere else. With the entry of China, economic and technical exchanges in that region will only intensify in the future. Finally, the most salient feature about the world today is that a new international high-tech revolution is guarding China's door to enterprise technical transformation. Since all this, directly and otherwise, will influence our choice of a foreign capital use strategy and our realization of such a strategy, we must formulate our strategy in the real-world context.

The objective environment is extremely complex and the factors affecting our use of foreign capital are volatile. How do we determine the ideology which is to guide our use of foreign capital? By combining China's conditions and world economic development trends, we may come up with three basic premises which we should uphold unswervingly:

A. The use of foreign capital is a long-term strategy in socialist economic construction. The open door policy is China's basic long-term state policy. That foreign enterprises, individuals and other economic organizations shall be permitted to invest in China in accordance with our laws and regulations has been written into our constitution. The long-term nature of using foreign capital has been stated time and again in CPC Central Committee announcements and regulations and government documents. What has to be pointed out here is that since the use of foreign capital is a consistent long-term strategic measure, it follows that all government departments must take into consideration the need for and possibility of foreign capital and the scale and form of using foreign capital and fully assess its political and economic impact in the course of drawing up economic and social development strategies, plans, principles and policies; formulating resource development plans, technical modernization programs and training programs, and coordinating the development plans of and economic relations between various economic sectors, localities and enterprises. They must take the long-term view and the incremental approach to make headway slowly but surely, step by step.

B. In using foreign capital, we must have a national perspective. Ours is a planned economy. The idea that all the nation's economic activities must be coordinated like pieces in a chess game must be applied to every single aspect of economic construction. The state should centralize the use of foreign funds, set priorities and zero in on what is most important. At the same time, localities and enterprises must develop an enthusiasm for foreign economic activities, organize Chinese-foreign joint ventures, cooperative enterprises and wholly owned foreign enterprises and, within limits set by the state, expand economic and technical exchanges with the outside world and promote national economic development. Sectors, regions and even enterprises must help and support one another by pooling information, exchanging experience, synchronizing their moves and presenting a united front to the world. In the first stage of using foreign capital, in particular, we must prevent localities and enterprises from competing against one another for foreign capital and customers, lowering standards, undertaking projects indiscriminately and undermining one another. We must stop them from succumbing to unhealthy tendencies and competing against one another to the advantage of foreign businessmen. We must also take a national viewpoint in the course of "trading market for technology" and sorting out international balance-of-payments problems of joint ventures, cooperative enterprises and wholly owned foreign companies.

C. In using foreign capital, we must stress practical achievements and economic results and weigh pros and cons from every angle. The use of foreign capital can take myriad forms, e.g., we may seek long- and medium-term credit from foreign governments and international financial organizations to fund priority projects; we may float company bonds in the international market to raise funds for production; we may attract foreign businessmen to invest here

and set up joint ventures and cooperative enterprises; we may also allow foreigners to set up wholly owned enterprises in designated localities. And so on. Foreign capital can be used in different ways and on different terms. When we borrow, we must repay capital with interest. When we attract foreign investments, we must let the foreign investor make a profit and take part in management. If all goes well, the project will help promote national economic development. If things do not work out, we may be drowned in a sea of debts and lose control. The pros and cons of all these moves are subject to a welter of factors, e.g., the purpose for which foreign capital is used, the capacity of the domestic infrastructure to deliver basic facilities, the standard of economic management and the economic results of the project in question. All these factors should be carefully considered, along with the extent of possible losses. Before we make a decision, we must prepare thorough feasibility studies and objectively weigh the minuses and pluses. "Good preparation ensures success, while lack of preparation dooms any enterprise." With a clear sense of what to expect and what not to expect, we will be prepared for any eventuality.

2. We have discussed above our strategic guiding ideology and objectives. Here we examine three issues relating to our strategic policies.

First, integrating import and export trade, technology import and the national direct absorption of foreign capital. This integration falls into two categories. In the first category, export and import trade, technology import and the direct absorption of foreign capital are formally combined. In the second category, the three elements are combined in the best possible proportionate relationship.

In terms of the development of the international division of labor, export and import trade (the export and import of commodities) is at the lowest level, technology import (technical trade) is at a higher level and direct foreign investment is at an even higher level. According to systems theories, direct foreign investment naturally includes the first two levels, laying the objective basis for the three-in-one integration. However, since the three elements are at different levels, are governed by different rules and have different operational characteristics, they have different macroeconomic and microeconomic results. Hence the need for a strategic policy which rationally combines the three to act as a guide.

Let us discuss first of all the three-in-one integration between export trade, technology import and direct attraction of foreign capital. We can imagine a situation in which a foreign businessman decides to invest in China by setting up a joint venture. He will own a certain percentage of the shares of the enterprise and provide technology and equipment. The products of the enterprise will be exported overseas. In this way, export trade, technology importation and the direct absorption of foreign capital are formally brought together. Does this kind of formal integration lead to better economic results than a situation where the three functions are performed separately by three enterprises? On the microeconomic level, the results really depend on specific factors. On the macroeconomic level, however, in a country like China which lacks technology and capital and cannot yet exploit its potential resources, the three-in-one integration generates greater economic benefits

than the sum of the individual results of three separate enterprises each doing its own thing. This is one reason why many developing nations in recent years have been working so hard to bring about such an integration in their use of foreign capital by encouraging the establishment of joint ventures and cooperative enterprises and resorting to such mechanisms as compensatory trade and processing and assembling. Such is one of the most effective measures of their foreign capital use strategy. By adopting this three-in-one strategy which seeks to merge export trade with technology import and the direct absorption of foreign capital, we may avoid the many pitfalls we experienced when we imported technology in the past, such as importing too many plants, duplication and the divorce between technology import and import-export trade, etc.

Another issue with the three-in-one integration has to do with the best proportionate relationship among the three functions. By and large, when we import capital and technology heavily, the cost of a piece of technology tends to increase in direct proportion to its economic results. But if we fail to integrate the technology with the nation's other resource advantages, ultimately the value of exports will fail to keep pace proportionally. The result will be a worsening international balance-of-payments deficit, which militates against the long-term importation of technology and the direct absorption of foreign investments. Another situation is one in which we concentrate on importing low-cost technology, which was what some nations did earlier in their export processing zones. While both direct foreign investments and export trade may register substantial gains, the amount of imported technology will remain rather low, thus retarding technical modernization in the industrial sector and giving rise to an abnormal situation of growth without development. Also, given our domestic and international conditions today, if direct foreign investment in all its diverse forms grows at a slower rate than that of export trade and technology import, it will be difficult to ensure a rapid increase in technology import or a correspondingly reasonable growth in export trade. The best ratio among the three functions should fluctuate within certain limits in response to the ups and downs of the world economy, particularly economic conditions in the West. For instance, when the Western economies are in the doldrums, we may have an easier time attracting foreign capital. But this is exactly the moment when we experience difficulty expanding our exports, which means a decline in our ability to pay with foreign exchange, which, in turn, will effectively limit the absolute amount of foreign funds we can absorb. Conversely, when the West bounces back economically, surplus foreign funds tend to dry up. But since we can now increase our exports, we have a greater capacity to repay capital with interest, which, in turn, will help our drive to attract more foreign capital and import more technology. In this way the best proportionate ratio among the three functions fluctuates within a certain range. We can thus see that in the long run, as long as they bear a correct proportionate relationship to one another, we can make full use of foreign capital, regardless of whether the Western economy waxes or wanes. There seems to be no reason to believe that only economic hard times in the West present us with the opportunity to use foreign capital.

Second, the integration of the open door policy with domestic economic and technical cooperation. This is a vital strategic policy.

From the perspective of technology transfer, there is a yawning gap between our technical and economic standards and those of the world, particularly those in advanced industrialized nations. This fact makes our decision to use foreign capital and engage in international economic exchanges a long-term strategic one. At the same time, unevenness in economic and technical developments also exist within China itself, especially between our coastal areas and the interior; the former is more productive than the latter. This fact determines that the development of technical cooperation between the coast and the interior is an essential route we should follow to expand reproduction in the hinterland. Consequently, technical cooperation between coastal areas and the interior is also an important strategic point. However, since China lags behind advanced industrial nations economically and technically, should we propose that both our coastal areas and the interior move at the same pace, open themselves to the world, use foreign capital and close the gaps between us and other nations as soon as possible? This question merits careful consideration. Usable funds, domestic or foreign, are limited. The economic and technical gaps between the coast and the interior are relatively wide. The greater the distance of technology transfer and dissemination, the higher the total social costs will be. On the other hand, a good infrastructure helps lower the total social costs of technology transfer. And relative to the interior, the coastal areas have a solid infrastructure already in place. They are also closer to world communications routes. For these reasons, they should naturally be the first places to be opened and attract foreign capital. Meanwhile, they should strengthen horizontal economic ties with the interior and, through economic and technical cooperation in all its different forms, transfer and disseminate their production technology and managerial experience in a targeted manner, including foreign technology and managerial experience. In this way, the interior will get to learn advanced technology and management without extensive investments. What it learns will be concrete, practical and can be quickly assimilated, probably more practical and useful than what it can import from outside. This strategy facilitates the coastal areas in playing its role as a springboard in external and domestic economic and technical exchanges and constitutes an approach we can take in order to face up to the new world technological revolution, transform old enterprises and promote industrial modernization. Certainly this is not to say that the interior cannot use foreign capital. Wherever conditions allow, foreign capital may be absorbed directly from outside, particularly to develop resources. All we are saying here is that there should be a general set of priorities. The slogan, "Push out into the world and cooperate with the interior," is of great significance and should be emphasized here.

Can the open door policy of the coastal areas and economic and technical cooperation between the coast and the interior go hand in hand? We think so, a conclusion we reach by looking at the main forms of domestic technical cooperation generally recognized by our experts. They are: 1) technical services; 2) compensatory trade; 3) transfer of scientific and technical achievements; 4) joint ventures; and 5) joint companies. A relatively sophisticated and wide-ranging form of technical cooperation, the joint company completely transcends departmentalism and regionalism and organizes supply, production and marketing under one roof in accordance with economic

rationalism and the principle of specialization and cooperation. We can see from the above forms of cooperation that coast-interior technical cooperation manifests itself in ways similar to those of the use of foreign capital. The socialist nature of coast-interior technical cooperation, moreover, gives it a unique advantage lacking in the use of foreign capital (where socialist enterprises engage in technical cooperation with their capitalist counterparts). It is a feasible strategy for the coastal areas to be opened to the world and use foreign capital while cooperating with the interior economically and technically at the same time.

Third, combining the energetic pursuit of foreign capital with the protection of domestic industries and the enhancement of China's self-reliance.

Today, conditions both at home and abroad dictate that we gradually give up part of the domestic market in exchange for advanced technology. But any heavy absorption of foreign capital (including foreign technology) inevitably deals a blow to domestic industries and may even undermine our tradition of self-reliance. To cushion the blow and strengthen our self-reliance, it is imperative that we put forward the strategic policy of combining the energetic pursuit of foreign capital with the protection of domestic industries and the enhancement of China's self-reliance.

This strategic policy requires that we must first clarify answers to these questions: Does the use of foreign capital to speed up the modernization of old enterprises really help them? Or is it, in general, a hindrance? For weak industrial sectors, does imported capital help correct the lopsided industrial structure, or does it aggravate it? How effective is the use of foreign capital in promoting production in related industries?

Because the importation of technology and use of foreign capital basically bridge the technical gap between us and advanced industrialized nations, they are compatible with the protection of domestic industries and the strengthening of self-reliance. Herein lies the possibility for their integration. In the wake of dramatic changes in China's national economy and its economic development strategies, the concept of protecting domestic industries must also be modified substantively. Whereas it meant absolute protection before the 1970's, now it refers to relative protection. In the past it was passive protection; today it is active protection. Relative, active protection should fire the competitiveness of our enterprises, stimulating them to upgrade production technology standards, improve managerial methods and appropriately apply imported capital to strengthen the technical capabilities of existing enterprises, and systematically and gradually modernize old enterprises even as portions of the domestic market are opened to the world. Protective measures of a specific duration should also be instituted to promote the healthy development of domestic industries and narrow the gaps between us and the world. By combining the use of foreign capital organically with the protection of domestic industries, we shall be able to use foreign capital as a catalyst, modernize old enterprises, strengthen the industrial effects of imported technology and increase the domestic content of products manufactured by wholly owned foreign enterprises

and Chinese-foreign joint ventures in the country. In the process domestic industries will gain in economic vitality and be able to hold their own in international competition in an open environment.

The above discussion shows that the open door policy and the restructuring of the economic system are so intimately linked that they cannot be separated. The former needs the latter; the latter, in turn, nurtures the former's success.

3. To achieve a breakthrough in the attraction of foreign capital, China in recent years has taken a series of major measures and steps, from the signing of economic cooperation agreements (including investment protection treaties,) the opening of coastal cities and the formulation of necessary laws and regulations to relax policies, granting preferential treatment and diversifying capital sources and methods of using such capital. On the whole, these measures have been effective in attracting foreign capital. Since their orientation has already been clarified and understood, we will merely discuss a number of related strategic points.

A. The question of increasing our ability to make payments with foreign exchange. To speed up the importation of foreign technology and the attraction of foreign capital, we must increase our ability to make payments with foreign exchange. Internationally, the debt service ratio (DSR) is used as a yardstick to measure the riskiness of a loan or investment. The rule of thumb is that a nation's annual capital and interest payments on its debts should not exceed 20 percent of its foreign exchange income. Anything below that is considered relatively safe. At the moment, of course, China is a long way from the 20 percent mark. Because of development, however, our regular expenditures will probably increase faster than our regular income in the future, so how to increase our foreign exchange earnings remains a critical issue.

The foremost foreign exchange earner is exports. China's export potential is immense and we have been running a trade surplus since 1981. It can be foreseen that in the future, after we reform our foreign trade system, institute an import and export agent system, expand trade channels and mobilize the sectors' and localities' enthusiasm for developing exports, our foreign trade will enter a new era. From a strategic viewpoint, though, we may do better if we pay closer attention to tapping new sources of foreign exchange. We have had notable achievements in undertaking engineering projects overseas and in labor service cooperation. From now on we should branch out geographically, instead of confining ourselves to the Middle East. A good deal of potential awaits exploitation in such service sectors as international transportation, banking, insurance, tourism and consulting. Also to be developed gradually are multinational operations, overseas investments and the establishment of joint ventures and cooperative enterprises overseas in cooperation with foreign businessmen.

To make full use of domestic and foreign resources and capture both the international market as well as the domestic one, we must venture out as well as import from abroad. Instead of conflicting with each other, investing overseas and attracting foreign capital are actually complementary. Over the

past decade, many developing nations (including some saddled with massive debts) have developed their own multinational enterprises and earned handsome profits and substantial foreign exchange as a result. Some of our qualified enterprises should orient themselves to the world likewise and go multinational. This is a trend in international economic development which offers many advantages and should be encouraged.

Once we increase our ability to earn foreign exchange, we can enlarge the extent to which we use foreign capital, relax foreign exchange controls and be more flexible in how we attract foreign capital.

B. The question of preferential treatment for foreign investors. It is a common practice worldwide (adopted even by developed nations) to offer preferential treatment as an inducement to foreign investors. But what constitutes preferential treatment? How preferential should it be? Answers to these questions vary from nation to nation because of different national conditions. Also, a nation may offer differential preferential terms at different points in time. Even after they were drawn up, preferential regulations may be set aside in favor of special measures to deal with a special set of circumstances. Ours is a planned economy. In that regard, the guaranteed supply of raw materials, low-cost labor and the availability of part of the domestic market all constitute important preferential treatment. So do tax breaks and tax exemptions, the freedom to repatriate profits, the leasing of superior physical sites and favorable credit terms. But we must clearly understand the premise on which we base our policy of preferential treatment for foreign investors: It must help speed up China's four modernizations as well as generate more profits for foreigners. As foreign capital originates in a variety of sources and investments come in all forms and shapes, we should vary preferential treatment in accordance with the nature of the investment, the technological standards involved, the industry concerned and regional factors so that he who contributes more will also reap greater economic dividends. When the government formulates preferential measures, there should be a set of uniform standards. But there must also be a range within which localities and enterprises can modify these standards so that they have some room to maneuver in their negotiations with different investors.

C. The training of personnel for management and external economic and technical operations. As China's external economic work unfolds, the need for personnel in this and other areas will increase each year. Foreigners investing in China and setting up joint ventures, cooperative enterprises or wholly owned companies, not to mention the establishment of Chinese multinational enterprises, also create a need for Chinese technical and managerial personnel. Hence it will be a strategic policy to train people for external work. Such people must be armed with professional expertise, practical experience and socialist consciousness. A person unfamiliar with the nuts and bolts of business and the management of foreign capital will not be able to move beyond generalities. On the other hand, he must also be able to withstand the onslaught of all manner of temptations and maintain a realistic outlook, dealing as he will be in trade and business and moving in capitalist circles. Our trainees should include working cadres as well as

young people about to join the work force. Training may be offered by institutions of higher education and professional schools or conducted through courses designed to meet specific needs, which need not be elaborated here.

D. Streamlining administration and delegating power to give play to the initiative of enterprises and localities.

As enterprises are directly responsible for social production and commodity circulation, the CPC Central Committee has decided to make enterprise vitalization the core of the restructuring of the urban economic system and to continue to streamline administration and delegate power so that enterprises become genuinely self-managed, financially independent economic entities under the guidance of the state's uniform policies and planning. The Central Committee's decisions have significantly boosted the enterprises' interest in using foreign capital and importing technology, fueled their keenness to compete internationally, (particularly that of large enterprises,) and compelled them to seriously ponder the use of foreign capital, organize joint ventures, import technology, propose projects, organize production and arrange for the repayment of loans and distribution of profits. Thus was laid a solid foundation for the management of foreign capital and the improvement of the economic results of the use of such capital. Besides, streamlining administration and delegating power to allow localities to develop economic ties with the world directly and expanding their examination-and-approval authority may also unleash their initiative, especially that of opened coastal cities, and help bring about an attractive investment environment as soon as possible. The attraction of foreign capital may expand production capacity and promote social prosperity and modernization. Nevertheless, there are times when it poses additional demands on our ability to coordinate existing enterprises, technology and funds, puts new pressure on various infrastructural facilities and creates a succession of problems in all areas of social life. We should rely on a well-coordinated and multilevel management system and the further implementation of the principle of power, responsibilities and rights to sort out these relationships and issues. Even more urgent are the simplification of the examination-and-approval procedures, integrating the management channels and enforcing various policies and regulations.

In addition, serious consideration should be given to the exchange of data and information, the establishment of an information system and the setting up of information centers in key areas. Also to be considered is the establishment of a specialized management agency to coordinate the pace at which sectors and localities are using foreign capital and to remove impediments in all quarters.

In short, foreign capital use involves many aspects and its success depends on a multitude of factors. In implementing our strategic policies, we must be systematic and flexible and appeal to people's initiative. The important thing is to learn and investigate in order to come up with rules and principles.

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FOREIGN TRADE AND INVESTMENT

GUANGZHOU ACHIEVEMENTS AFTER 6 YEARS' OPEN-DOOR POLICY

Hong Kong JINGJI DAobao [ECONOMIC REPORTER] in Chinese No 43, 28 Oct 85 p 31

[Article by special correspondent Zhang Xianmin [1728 2009 3046]:
"Outstanding Achievements of Guangzhou in the 6 Years of Open-Door Policy"]

[Text] Guangzhou occupies a conspicuous and important place in the entire country's economic opening up toward the outside world. In 1979 the CPC Central Committee and the State Council approved the implementation of special policies and flexible measures in the provinces of Guangdong and Fujian. In 1984 the Central Committee and the State Council included the city of Guangzhou among the 14 coastal ports that were to further open up toward the outside world. Later, Guangzhou Municipality was restored to the status of a separate planning unit, was allowed to institute an economic technology development zone and granted the powers of a province of the first rank in economic administrative affairs. Guangzhou took full advantage of all the special policies and the favorable treatment bestowed on it by the central authorities and fully utilized its unique socioeconomic and natural geographic advantages to achieve outstanding successes in the utilization of foreign capital, the importation of technologies and in the acceleration of its economic construction.

During the period from 1979 to the end of June of this year, the city signed more than 16,600 economic and technical cooperation contracts of every kind with foreign businessmen, who according to these contract are to bring in a total of \$1.84 billion in investment capital and expenditure for labor. Among these contracts, 437 were joint ventures, cooperative management and compensation trade contracts, of which the foreign investments amount to \$949 million; the amount already actually invested is about \$328 million. The contracts for the processing or assembly of imported materials number 16,165, involving labor expenses of \$870 million; the sum of actual foreign exchange settlements so far and the value of equipment that has already arrived add up to a total of \$240 million. As to foreign trade, the value of exports during 1984 was \$350 million, almost double the amount of 1978. The total during the first half of this year was \$150 million, or 6.09 percent over the amount during the corresponding period last year.

In a little over 6 years, the foreign economic and trade relations of Guangzhou Municipality have grown from little to much, from small to big, in a

process of incessant increase and continuous development. This fact is brought out in concrete terms in the following five changes:

1. The patterns of using foreign capital and importing technologies have advanced from mainly very simple "three bring-in's and one compensate" to a number of large and medium-sized joint venture and cooperative projects. In the use of foreign capital, the period from 1978 to 1980 was the initial stage, when the city of Guangzhou conducted all its foreign business mainly in the form of the "three bring-in's and one compensate." Since 1984 the central authorities gave Guangzhou broader authority to conduct foreign trade, and this gave strong impetus to foreign trade undertakings. Last year, 24 joint venture contracts were signed, which was 7 times the number of the preceding years; another 114 contracts were for cooperative management enterprises, which was more than during all the 5 preceding years together. In the first half of this year, the momentum of a continuous increase in foreign trade was well maintained, with a total of 56 joint ventures and the contractual investment by foreign businessmen of \$150 million.

2. The direction of foreign investments shifted from tourist service trades and spread quickly to industry, agriculture, communications and transportation. In the last few years, Guangzhou built a number of high-class hotels to improve the investment environment, making it more attractive for foreign businessmen to come to Guangzhou and invest there, and in that respect was very effective. Beginning last year, Guangzhou started out from consideration of the overall plan of the national economy and strengthened its guidance of investments with the special idea of larger proportions of them to go to industry, communications and agriculture. Last year, the amount of foreign investments derived from newly concluded contracts used in these particular respects accounted for 30 percent of the total annual foreign investments, and this proportion rose to 41 percent during the first half of this year.

3. While cooperation in the past was mainly with parties from Hong Kong and Macao, Guangzhou now gradually has developed economic cooperative relations with more than 10 countries, among them France, the United States, Japan, Singapore, Canada, Thailand, the FRG, Belgium and Great Britain.

4. The procedure for checking and approving projects was changed from one of great cumbersome to one of simplicity and facility. Last year, Guangzhou Municipality as a further step delegated the authority for the checking and approval of projects of \$2 million or less to its subordinate districts, counties and bureaus, thereby stimulating enthusiasm in all sectors and accelerating the utilization of foreign capital. Guangzhou also set up a "foreign trade one-way street," which greatly facilitated negotiations and dealings with foreign businessmen in Guangzhou and raised work efficiency.

5. In the course of the practical work involved in foreign economic relations and trade, Guangzhou gradually built up a contingent of key cadres, highly proficient in their work, with a good grasp of policies involved and the boldness of breaking new ground, professionally; this proves to be an extremely valuable asset in all of Guangzhou's activities connected with its opening up for foreign trade. The continuous expansion and qualitative

improvement of this contingent will play an even greater role in the future development of Guangzhou's foreign trade.

The conspicuous changes in the mentioned five aspects have already played an outstanding role in the development of Guangzhou's national economic construction and have resulted in excellent socioeconomic benefits.

First, funds for economic construction increased, and a series of large-scale projects could be undertaken. Since 1981 Guangzhou used over \$500 million of direct foreign investments for capital constructions, accounting for 27 percent of the total investment for capital constructions by entities owned by the whole people. With these funds, 500,000 sq m of tourist hotels, 150,000 sq m of apartment houses and the Zhujiang Brewery with an annual production of 50,000 tons of beer have been built. Furthermore, the Zhujiang Cement Works with an annual production of 1.25 million tons of cement, a refrigerator compressor factory with an annual output of 1 million pieces of products and a compact motorcar factory with an annual output of 50,000 cars are now under construction.

Second, the technological transformation of enterprises and their technical progress was much accelerated. Since 1978 through the use of foreign investments and with foreign exchange funds raised by the enterprises themselves, over 150 production lines and several tens of thousands of pieces of equipment have been imported, such as, for instance, a production line for containers for the manufacture of polyurethane synthetic leather and for the manufacture of refrigerators, all items that were new in China at the time of their importation. The importation of machinery for rubber-sheathed lead cables, large circular knitting looms, and of technological software for beer fermentation and for the manufacture of electric elevators enabled a large number of enterprises to be transformed. The importation from the United States of livestock raising equipment and poultry stock enabled the annual production of over 90,000 chickens and 3 million jin of fresh eggs. The importation from West Germany of technology for the raising of high-quality fish for consumption brought production up to the advanced level of the 1980's. Imported were, furthermore, "abalone mushrooms", milk cows, rainbow fish, lean-meat pigs, and other items, promoting the development of the animal raising industries.

Third, the establishment of a group of key enterprises which play an exemplary role in the economic construction of Guangzhou. Such are the Guangzhou Beer Brewery, the Zhujiang Beer Brewery, the Guangzhou No 1 Rubber Factory, the electronic watch assembly, electric household appliance assembly, the Guangzhou piano factory, and in the preparatory stages: easy-open cans with an annual output of 250 million, spinning mills with 23,000 spindles, and equipment for the manufacture of 50,000 compact motorcars per year. There are now more than 30 enterprises in Guangzhou that generate more than \$1 million in foreign exchange, with a total capital of \$250 million, among which foreign investments account for \$96.56 million.

Fourth, innovations in the basic level of digestion and absorption of advanced equipment and technologies imported from abroad. The Guangzhou Electric Elevator Factory imported from Japan three sets of manufacturing equipment and

software technologies for 16 different models of elevators, which are now being used in Chinese production, with the products enjoying brisk domestic sales. The Guangzhou Construction Machinery Co is manufacturing quarto automatic platform printing machines modeled after British machines, having already produced over 110 machines and thus providing advanced equipment for the technological transformation of the printing industry. The importation from Japan of a production line for oil-fried instant noodles led to the new creation of 28 production lines for non-oily wavy noodles.

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CSO: 4006/262

FOREIGN TRADE AND INVESTMENT

ROLE OF CCIC IN FOREIGN TRADE DISCUSSED

Beijing GUOJI MAOYI [INTERNATIONAL TRADE] in Chinese No 9, 27 Sep 85 pp 56-57

[Article by Yang Deqiao [2799 1795 2884]: "The China Import and Export Commodity Inspection Corporation Plays an Important Role in International Trade"]

[Text] At a time when we are aggressively vitalizing our economy at home and firmly carrying out the open door policy, in what ways can commodity inspection better serve foreign trade? At the Guangzhou Trade Fair last spring, I interviewed Comrade Zhang Erduan [1728 1422 4551], business manager of the China Import and Export Commodity Inspection Corporation [CCIC]. The following is a record of her briefing.

1. The Nature of the China Import and Export Commodity Inspection Corporation

With the approval of the State Council, the CCIC was formally set up in July 1980, and branches of the corporation were simultaneously established in China's major ports. As an impartial third party, the corporation uses scientific methods to test imports and exports in order to facilitate commodity exchanges, accounts settlement, price calculation and the reasonable solution of compensation claims, and protect the legitimate rights and interests of parties involved. Its primary function is import and export commodity inspection and fair appraisal.

Mandated by the State Commodity Inspection Bureau of the People's Republic of China (hereafter referred to as the State Commodity Inspection Bureau) and based on the "Commodity Inspection Regulations" and the "Rules for Implementing the Commodity Inspection Regulations," promulgated by the State Council on 28 January 1984, the corporation is the entity responsible for fair and independent testing in foreign trade.

2. The Legal Status of the CCIC

The corporation is a statutory organization established with the approval of the State Council and formally designated as a commodity inspection agency by the State Commodity Inspection Bureau. It carries out fair appraisal and testing in foreign trade and signs and issues a variety of inspection and appraisal certificates. It acts upon applications by units involved in

foreign trade, transportation, insurance and other related areas; by a department which takes delivery of imports or uses them, or their transportation agency; or by a department which produces or supplies exports. It can also undertake an inspection at the request of a foreign inspection agency or when mandated by an arbitration or judicial agency. Certificates signed and issued by the CCIC are valid evidence in the conduct of import and export commodity exchange, accounts settlement, cost calculation, customs declaration, tax payment and the settlement of compensation claims. They are legally enforceable and constitute valid evidence in international trade.

3. A Sound Organizational Structure

The CCIC is a managerial agency under the leadership of a managing director. It is made up of a business department, an agricultural and animal husbandry products inspection department, a light and textile industrial products inspection department, a machinery, mineral and chemical industrial products inspection department, a fair appraisal department as well as administrative and managerial departments. Branches have been set up in trading ports, notably such provinces, municipalities and autonomous regions as Beijing, Shanghai, Tianjin, Guangdong, Liaoning, Shandong, Jiangsu, Fujian, Guangxi, Zhejiang, Hebei, Heilongjiang, Nei Mongol, Hubei, Sichuan and Xiamen. In addition, inspection centers have been organized in Shanghai, Tianjin, Dalian, Guangzhou, Beijing, Qingdao, Wuhan and Nanning. All branch corporations and inspection centers are fitted with inspection equipment and facilities advanced by international as well as domestic standards, such as gas and liquid chromatographers, ultraviolet and infrared spectrophotometers, fluorescent microscopes, atomic absorption spectrophotometers and emission spectrum test equipment which are capable of testing and determining accurately and precisely the chemical composition and physical properties of exports and imports and the presence of any harmful elements and toxic viral substances.

The CCIC has a staff of more than 5,000 people, including 3,000 engineers, appraisers, assistant engineers and inspection technicians from all disciplines. Many of them are experts with years of experience behind them.

4. The Subordination Of The CCIC To The State Commodity Inspection Bureau

In accordance with the "Commodity Inspection Regulations" of the State Council, the State Commodity Inspection Bureau is in charge of the overall supervision and management of all export and import commodity inspection in the country. Its main functions are to carry out quality control with regard to imports and exports and centralize supervision over and management of commodity inspection and appraisal. The CCIC and its branches are all inspection organs designated by the bureau to undertake independent inspection and appraisal at the request of and in accordance with the demand of parties in foreign trade and foreign testing agencies.

Administratively subordinate to the bureau, the CCIC discharges its inspection and appraisal duties independently. Its branches are subordinate to the leadership of the corporation.

5. Inspection Basis and Standards

In general, the CCIC carries out sample testing in accordance with a contract or letter of credit. If the contract or letter of credit does not specify the inspection basis of an import, the CCIC will follow existing standards in the country of origin, or international standards. Exports are tested in accordance with relevant Chinese standards. If the party which commissions the test requests that such standards as the "BS" standards, "FS" standards and "ASTM" standards be followed, the CCIC will also oblige. When the party commissioning a job has specific demands with regard to standards, it must so state and provide the necessary technical data.

6. Export Inspection Methods

Generally speaking, the CCIC carries out sample tests on exports before they are packed for shipment. It may also dispatch personnel to do inspection at a factory if the party commissioning the test so requests. In addition, the CCIC examines raw materials and supervises processing to ensure product quality.

7. Extensive Business Connections

Since its establishment, the CCIC has rapidly developed a web of cooperative business relations with foreign testing organizations, businessmen, and firms through the exchange of delegations and inspection technology and by commissioning one another to undertake tests. So far it has had business dealings with about 100 companies, most of them in Japan, the United States, Britain, the Federal Republic of Germany, Switzerland, Sweden, Australia, Peru, Cuba, Thailand, the Netherlands, Spain, Belgium, Mexico, Romania and Hong Kong. The CCIC has concluded long-term cooperation agreements with many foreign testing organizations, notably Underwriters' Laboratories [UL] of the United States, the International Wool Secretariat [IWS], General Appraisal Co [SGS] of Geneva, the "CCALEB Brett" Co of Britain, the International Group [AIG] of the U.S., Japan Maritime Testing Association [NKKK], New Japan Testing Association, the Japan Inspection Association, the Japan Grains Testing Association, Japan Overseas Merchandise Testing Society [OMIC] and the Japan Petroleum Products Testing Association, etc. The CCIC and its branches have been recognized by the International Rubber Institute as rubber inspectors. There is a total of 17 inspection workers in the various branches who have been recognized as apparel inspectors by the IWS. The CCIC's agent in the Hong Kong region is China Inspection Co, Ltd.

8. The Setting of Inspection Fees

A non-profit organization, the CCIC charges an inspection fee to cover service expenses and the wear and tear of equipment and facilities. It sets its fees reasonably and fairly through consultation on a case-by-case basis, taking into account such factors as the size of the batch, the complexity of the job, the level of expertise and the amount of labor required by the commodity value. In cases where the fee is calculated in accordance with the time required, the going rate is \$15 per hour. When it is calculated in accordance with commodity value, it is usually 5 percent. The CCIC also has appropriate

preferential rates for long-term clients and those who commission it to do large or multiple jobs. The minimum fee for a single job is \$100 and additional charges such as overtime pay, travel allowance and expenses for renting transportation equipment be imposed if necessary.

9. When Inspected Products Cause Problems Abroad

The CCIC carries out sample testing at the request of a commissioner and in accordance with standards specified in the contract. When the quality of a product is relatively consistent, the testing can serve as a guarantee of product quality and reduces the risk of the buyer. But product inspection does not absolve the seller from contract liability. This is because commissioning a third party to carry out testing is not the same thing as the buyer doing his own checking before acceptance or as total quality guarantee. When a quality problem occurs, the CCIC helps identify the cause of the problem and pinpoint responsibility, thereby facilitating the resolution of the problem.

10. The Procedures Of Commissioning the CCIC To Do A Job

When international trading concerns, enterprises, firms, transport insurance companies and fair appraisal agencies concerned need to commission the CCIC to undertake an inspection and appraisal job, they can write, call, personally visit or in some other way contact any one of its branches. Alternatively they may specify in the contract or letter of credit that inspection be carried out by the CCIC with all expenses to be paid by the commissioner.

If the job commissioned involves several ports, the client may approach the CCIC for the latter to organize the work among the branches concerned.

In commissioning a job, international traders, enterprises, firms, transportation insurance companies and testing organizations must specify the project to be inspected and other specific demands and supply the name of the contact unit, its address and other information relating to the contract and bill of lading. To facilitate business, the CCIC may also conclude long-term or single-project inspection agreements with traders, enterprises, firms and testing organizations.

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FOREIGN TRADE AND INVESTMENT

PROSPECTS FOR EXPORTS TO JAPAN OVER NEXT 5 YEARS

Peijing GUOJI MAOYI [INTERNATIONAL TRADE] in Chinese No 9, 27 Sep 85 pp 53-55

[Article by Xu Chengwen [1776 7022 2429]: "China Can Increase Exports to Japan, If It Tries"]

[Text] In 1980 Chinese-Japanese trade approached \$10 billion (Japanese statistics, as are the data below). Can the value of Chinese-Japanese trade quadruple and hit \$40 billion by the end of the century? The answer to a large extent depends on whether or not it can double and reach \$20 billion in the next 5 years, i.e., by 1990.

We are pleased to see that Chinese-Japanese trade was already worth \$13.2 billion in 1984, up almost 40 percent over 1980. The average annual growth rate was about 10 percent. If this rate can be sustained, Chinese-Japanese trade can easily double in value and reach \$20 billion by 1990.

The crucial question is whether our exports to Japan can increase to \$10 billion. In 1980 they were valued at \$5.96 billion, up 38 percent over 1980's exports of \$4.32 billion. The average annual growth rate was a little over 9 percent. If our exports to Japan continue to expand at this rate, they can possibly be worth \$10 billion in 1990.

On the other hand, we must realize the difficulties involved in boosting our exports to \$10 billion within 5 years. Our approach should be to consolidate and develop our "bread and butter" exports, develop new commodities, expand the export of small and medium products, step up publicity and sales promotion and do everything possible to coordinate our exports.

1. Consolidating And Developing Our "Bread and Butter" Exports to Japan

What are the main problems we should tackle in order to increase our exports to Japan in the next 5 years? Before we answer this question, let's look at the following realities.

Our Major Exports to Japan

For many years, the commodities in the table below have consistently accounted for more than 80 percent of our exports to Japan and become our "bread and

butter" products. Whether or not we can expand our sales to Japan in the future largely depends on our ability to consolidate and develop these "bread and butter" commodities.

Estimates are that these commodities will still constitute about 80 percent of our exports to Japan by 1990 for these reasons: 1) There is a demand for them in the Japanese market and we have the capacity to produce them for export. 2) They have basically found a niche in the Japanese market. 3) Bilateral cooperation and exchanges in these major categories of commodities will facilitate their export to Japan.

	(in \$100 million)		
	1975	1980	1984
Total Exports to Japan	15.31	43.23	59.58
Major exports as % of total exports	82.6	84.6	84.1
Aquatic products	0.67	1.82	1.51
Fruits and Vegetables	0.56	1.47	2.49
Textile raw materials	0.90	1.79	2.86
Crude Oil and Unrefined oil	7.40	19.52	23.45
Petroleum products	-	3.07	5.43
Chemical industrial products	0.40	1.98	2.48
Textile products	1.99	5.33	8.88
Coal	-	1.17	2.04
Soya beans	0.73	0.37	0.95

Oil and coal make up about half of our exports to Japan. In 1980 we sold 9 million tons of coal to Japan with a price tag of \$1.952 billion. By 1990 our oil exports to Japan will double and reach 18 million tons with a total value of \$3.8 billion. It will not be easy but with effort we should find the target attainable. Concerning Japan's demand, Japanese forecasts suggest that it will remain \$240 million tons by 1990. Even if our exports reach 20 million tons, we will still account for a little more than 8 percent of its demand, a small share.

China produced 770 tons of coal in 1984, overtaking the Soviet Union to become the world's second largest producer. In 1980 we sold Japan 2.2 millions of coal, or 3 percent of total Japanese coal imports, with a value of \$117 million, 2.6 percent of what Japan spent to buy foreign coal. Our coal exports to Japan in 1984 were worth \$204 million and accounted for a mere 3.9 percent of the total value of its coal imports. According to Japanese projections, the country will need 1.08 billion tons of coal by 1990, up 16.9 percent over 1980's figure of 924 billion tons. Hence it is conceivable for us to expand our exports to Japan.

Nevertheless, some Japanese have indicated that they may cut down on energy consumption and reduce imports from China. The Japanese should note that they ran up a surplus of more than \$1 billion with us last year. If they further reduce the purchase from China of the two major commodities of oil and coal,

then the trade gap between us will only widen, with detrimental effects on our imports from them. Clearly such a move will not help the development of Chinese-Japanese trade. Besides, given the turbulence in the Middle East and the string of accidents in Japan's coal mining industry, there is also a need for Japan to consider steadily increasing imports from us. Provided both sides consider their long-term interests, not only will Chinese-Japanese energy trade not diminish, but it will actually increase gradually.

Among aquatic products, prawn exports to Japan are highly promising; last year we sold 17,000 tons worth \$77 million. But we are short of large prawn in the range of 7-12. In the future we must develop the export of large prawn to Japan.

It is only after 1980 that we gradually resumed and developed the export of corn and soya bean to Japan. Our soya bean exports to that country, which amounted to just 100,000 tons and were worth a mere \$37 million in 1980, rose to more than 300,000 tons valued at \$95 million in 1984. Each year Japan imports about 5 million tons of soya beans, of which 800,000 tons are consumed as food. Since most of our soya bean exports to Japan are consumed as food, we should first of all consider taking over its edible soya bean market by exporting 600,000 to 700,000 tons. If we manage to come up with improved soya bean varieties and increase the export of soya bean used for making oil, we can expect to sell more.

We sold about 600,000 tons of corn valued at \$59 million to Japan last year. At present all the large trading companies want to sign long-term supply contracts with us. If we manage to sort out our domestic transportation and loading problems, we should have no problem exporting 3 to 4 million tons of corn each year in the future.

The textile industry is one of the first sectors where we engaged in technical cooperation with the world and went in for processing using foreign designs and materials. For this reason our textile exports to Japan have also grown relatively rapidly. Over the past few years, a lot of our products have found their way into Japan's major department stores at good prices. In 1984 our textile exports to Japan already reached \$888 million. In the future we should combine our efforts to improve quality and quantity with a drive to increase variety, color and design and raise their added value as a way of increasing the dollar value of our exports.

China's exports of frozen vegetables to Japan also have great potential. In the past the Japanese did not like garlic bolt and blanched garlic leaves, but many Japanese companies now plan to buy directly from us. From now on we should develop certain varieties for export to Japan. They should be low-cost but relatively high-priced.

As we import more and more equipment and improve the quality of our products, we may hopefully be exporting more petroleum products and chemical industrial goods to Japan in the days ahead.

In rabbit fur and cotton exports, particularly the latter, there will be considerable room for growth. We began exporting cotton to Japan only in

1981. In 1984 the trade was already worth \$54 million and now looks likely to increase in the future.

Our electrical machinery exports have been sluggish for the past several years. The main reason is that our exports primarily comprise relatively low-priced and unsophisticated items such as machine tools and grinders. The sale of electrical machinery products must be backed up by after-sale services and coordinated with the supply of spare parts. In the absence of these services, which we cannot provide for the time being, marketing is very tough.

2. Work Hard To Develop New Products And Expand The Export of Small and Medium Products

Some Japanese friends say that not only is there a Japanese market for brake fern from China's northeast, Sichuan's hot pickled mustard root, Shaoxing rice wine and Tianjin chestnuts, but they are not available anywhere else. Our exports have hardly any competition and seem very promising.

Last year, our brake, writing brush, handkerchief, buckwheat and glove exports to Japan were worth \$5.8 million, \$380,000, \$5 million, \$1.3 million and \$7.9 million respectively...

In many ways we are well equipped to develop the production of small and medium commodities. China has abundant resources, the country is vast and every locality has its own traditional, unique products. Each of our 5 minority nationalities also has its own traditional arts and crafts. With some systematization and development, many products will become exportable.

Some products which seem insignificant may have the potential of being developed into major exports. Take chestnuts, for instance. With exports valued at \$41.5 million last year, chestnuts have become one of the largest single commodities we export to Japan. Pearl exports to Japan also reached \$26 million in 1984. Given further processing to increase their added value, our pearl exports will command a high price. feather, reed curtain, and firework exports have each exceeded \$10 million and cannot be described as minor products.

Even as we try to expand the exports of small and medium products, we must also continuously develop new products, an area where we have already accumulated some experience.

Mention the development of new products and people often conjure up visions of big, expensive items capable of earning lots of foreign exchange. Certainly we should go in for big projects when circumstances permit. But we must be aware that such schemes often require sizable investments and take a long time to materialize. Moreover, there is no guarantee that we will succeed.

It seems better for us to begin by concentrating on the research and development of small and medium products. Not only do they require little capital, but they also can be developed within a short time and produce quick results.

Bamboo needles are skewers used by the Japanese to string together meat, fish and vegetables as the food is being cooked on a stove. Japan used to import bamboo skewers from Taiwan, paying \$12 million for such purchases. In 1983 Fujian Province began exporting them to Japan and aroused a great deal of interest in Japan's trade circles.

Last November, Japan's Joint Trading Company began a cooperative project with Hebei's supply and marketing cooperative to grow mushrooms in a 10-kilometer air-raid shelter in the province. The projected annual output of 500 tons will be exported to Japan to earn 500 million Yen.

In 1983 the Beijing Food Research Institute successfully developed a process to make soya bean yogurt. The technology was later exported to Japan where it created quite a stir. This shows that we have a high degree of expertise in the research and development of food products and other small and medium commodities. We should increase our confidence in this field and step up such technological exports.

In recent years, health food and drinks are all the craze in Japan. If our units concerned can come up with new discoveries and new inventions, they can readily increase their exports to Japan.

3. Intensify Publicity And Sales Promotion

To increase our exports to Japan, we must intensify publicity and sales promotion as well as produce goods which are in demand in Japan's market.

It was only after extensive publicity that oolong tea established itself in Japan. This is also true for Jiangsu's pearlized cosmetics. The Japanese may be falling all over themselves for our "Zhongnanhai" brand cigarettes, but there are still many Chinese products which have not been introduced to a wider Japanese public because of half-hearted publicity.

Japan's largest department store, the Mitsukoshi Department Store, has set up a special counter for Chinese arts and crafts. But while the many articles in the counter have price tags, there are no explanatory notes. Many high-quality jade works just do not sell well despite their exquisite craftsmanship; in the absence of explanatory notes, people have no way of knowing their artistic value. Among the articles were a double-handle jadeite bottle and a multilevel ivory pagoda, each costing 11 million Yen. Since there were no explanatory notes, however, the sales clerk was at a loss as to their artistic value and could not tell the customers how many levels the pagoda had.

A Japanese physician bought a vase at the department store and asked the people concerned about the vase, but received no answer. He had no alternative but to write to the Chinese firm involved for information. Many twists and turns and much frustration later, he finally got a reply. Delighted, he went to the store again and bought another vase. This shows that if we do not take pains to publicize our products, we will not be able to open up a market. And there can be no publicity if products are not accompanied by explanatory notes.

The Japanese work very hard to publicize their wares. For instance, they videotape the manufacturing process of certain handicrafts and let the salespeople show the tapes around for publicity.

To open up a market, publicity must go hand in hand with actual sales promotion. On a visit to France, former Japanese Prime Minister Ikeda touted Japan's transistor radios to President de Gaulle and was dubbed "Prime Minister Transistor Radio" by the media at the time. This demonstrates the priority which Japan, from the top down, gives to commodity publicity and promotion.

Sales promotion should be flexible and target-oriented to suit the characteristics of the market in question. A fruit juice company from the United States used to rely on its overseas subsidiaries to take care of promotion. Taking a different tack in Japan, however, it adopted "a joint venture approach adapted to Japan's pattern of complex circulation channels" and set up a joint enterprise, a processing concern of aquatic products, with "San Jing Products." After thoroughly acquainting itself with the Japanese market, the joint venture spent heavily on sales promotion and in a short while established U.S. fruit juices in the Japanese market.

To expand exports, therefore, we must intensify trade publicity and sales promotion. The ideas that "a premium product need not worry about not finding a buyer" and that "a good product automatically sells itself" have become outdated.

4. Export To Japan Must Be Better Coordinated

In our effort to expand exports to Japan, we face a major problem: How should we coordinate the export departments of our various localities and units so that our export commodities can command good prices and we can sell more and earn more foreign exchange?

In 1984, we had a bumper harvest in chestnuts. Chestnut-producing regions and departments insisted on doing their own export and refused to keep one another informed. They had no consideration for the overall interest and ignored the reality that the Japanese market had room for 20,000 to 22,000 tons annually. As a result, the market was disrupted and our exporters had to cut prices. China's exports went up in volume, but there was no corresponding increase in foreign exchange earnings. The Japanese traders also suffered and lost confidence in selling our chestnuts.

Jiangxi Province's luowen inkstone has consistently enjoyed steady sales at stable prices in Japan. Not long ago, however, an export company took the liberty of sending letters to stationers in Japan, claiming that it was an agent for the export of luowen inkstone, and offered a 30 percent markdown. At the Spring Trade Fair, the company again readjusted the prices of luowen inkstone downward, sometimes by as much as 60 percent, thereby throwing Japan's inkstone market into chaos. The result was a decision by the Japanese to cancel all inkstone contracts worth \$60,000 concluded by the corporation when its delegation visited Japan last March.

Currently we have an adequate supply of corn. There is also a demand in Japan for corn. Our various localities and departments have indicated a desire to do their own exporting. Worried that decentralized management would lead to falling prices and losses, Japan's traders have repeatedly asked us to centralize our export and minimize the losses to both parties. Similar events can be cited. There is an urgent need for us to strengthen our export coordination. Otherwise we will not be able to achieve our target even if we have abundant supplies and do a perfect job in other areas.

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FOREIGN TRADE AND INVESTMENT

JAPANESE TRADE GROUP PRESIDENT ON EXPANDING CHINESE EXPORTS

Beijing GUOJI MAOYI [INTERNATIONAL TRADE] in Chinese No 9, 27 Sep 85 pp 10-11

[Article by Morita Takamaru, president of the Japan Association for the Promotion of International Trade: "Ways of Increasing Chinese Exports to Japan"]

[Text] Chinese-Japanese trade developed very rapidly in 1984, up 31 percent over 1983. In the second half of the year, Japanese exports shot up 47 percent while exports grew 16 percent, resulting in a surplus for Japan. During this period, Japan experienced a steady upsurge of interest in trading with China. To Japan, China is a most promising trading partner because China's open door policy has yielded practical results.

Since the beginning of 1985, however, Japanese exports have been soaring at an abnormally fast pace. For instance, Japanese exports to China from January through June amounted to \$6 billion, double that for the same period in 1984. Meanwhile Japanese imports were only \$3.2 billion. The upshot was a \$2.8 billion surplus for the first half of 1985 alone. (The surplus for the whole of 1984 was \$1.26 billion.) Most of the increase in Chinese imports this year were not part of the state plan but consisted of durable consumer goods imported by the localities. This surge in imports not only led to a buying stampede inside China but has also affected its foreign exchange reserves. All this shows that Chinese-Japanese trade has been developing too fast.

This year is the last year in China's Sixth 5-Year Plan and 1986 will usher in the Seventh 5-Year Plan. To ensure that trade and economic cooperation proceeds as planned, China must maintain its foreign exchange reserves at a certain level. This is why it must use foreign capital even more effectively.

To realize the quadrupling of its gross industrial and agricultural output value by the end of the century, China must devote itself to the development of electricity and the construction of communications, transportation, harbors and roads. At the same time it must make an effort to develop export industries.

The dependence of China's national economy on external trade is still very limited, but it will increase in the days ahead in view of the open door .pa

policy. Exports have the arduous task of ensuring China can buy the imports it needs. The question for Japan is how to expand its imports from China.

In general, the goal put forward by China of quadrupling its gross industrial and agricultural output value by the end of the century is not too difficult. If the Japanese economy grows 5 percent annually for the next 15 years, and assuming that its foreign trade, particularly imports, will grow at the same rate, that will mean a 2.2-fold increase in value, an increase which can be considered almost natural.

Japan imports from China a wide range of products. First there are the traditional commodities, e.g., water chestnuts, raw silk, native products, Chinese herbal medicine, special foods, arts and crafts and paint. Japanese imports from China make up 70 to 90 percent of its total consumption in these categories and will vary in response to changes in the country's consumption trends. These Chinese exports are going to account for a declining portion of Japan's consumption.

A larger share of Japan's imports from China consists of the following: petroleum, coal, chemical industrial products, petroleum products, light industrial goods, assorted metallic processed products, as well as agricultural, livestock and aquatic products. Most of them are international commodities. By and large, Japan's dependence on imports in these categories varies from time to time and its imports from China may increase sharply in some years and stabilize in others. But Japan's imports from China account for only 6 to 7 percent of total Japanese imports (it is almost 20 percent for fibers) but may possibly increase in the future.

As Chinese industries develop, moreover, the quality and quantity of their output will improve, which suggests the possibility that such exports as machinery, chemical industrial goods and light industrial products will go up and become new commodities in Chinese-Japanese trade. If this comes to pass, China's export commodity mix will become more rational.

In mineral products, China has rare-earth metals and precious metals, demand for which has lately emerged in the international market. The metals will be further developed and exploited in the Eighth [as published] 5-Year Plan. We can see from the above discussion that it is not too hard for Japanese imports from China to increase fourfold.

It is important to solve specific problems by laying down appropriate policies.

Some imports, however, such as agricultural and livestock products and light industrial goods, may conflict with Japan's domestic industries, a conflict which appears to intensify over time.

On the other hand, there are categories where the volume of Chinese imports has been increasing continuously and replacing Japanese imports from other regions. These products do not compete directly with domestic Japanese industries. Examples are petroleum, petroleum products, coal, soya beans, corn, rapeseed and cotton.

China should work hard to increase the international competitiveness of these so-called international commodities, primarily in terms of price, quality, packaging and transportation capacity. It should also improve its ports' handling capacity. International commodities are also called market commodities. If goods are not delivered to the place and by the time designated in the contract, the meaning of trade will be lost. I believe it is also very important to increase competitiveness in this respect.

As for prices, even if the government increases subsidies, they should be kept competitive. This applies in particular to agricultural products.

Solving these problems will have a crucial positive effect on increasing Chinese exports to Japan and other countries.

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DISCUSSION OF CHINESE-JAPANESE TRADE FRICTION

Beijing GUOJI MAOYI [INTERNATIONAL TRADE] in Chinese No 9, 27 Sep 85 pp 12-13

[Article by Fujimura Kosuke: "Sino-Japanese Trade Conflicts Should Be Solved by Consultation"]

[Text] In the latter half of the 1970's, Chinese-Japanese trade expanded continuously. To China, Japan is its largest trading partner. To Japan, China will only become more and more important in the future. However, a number of abnormal phenomena have appeared in Chinese-Japanese trade since last year. Japan's sales of cars, motorcycles and television sets to China soared several dozenfold last year over 1983. Since the beginning of this year, China has suspended negotiations on a number of contracts because of a shortage of foreign exchange reserves. This situation is bound to affect the development of Chinese-Japanese trade. What we need now is a steady expansion in Chinese-Japanese trade, and both sides are working hard for it.

In recent years, as its domestic economic development progresses smoothly, China has rapidly expanded its foreign trade. In the past, China spent vast sums of foreign exchange buying massive amounts of grains from Canada and the United States. Since 1979, villages in China have put into practice a production responsibility system, resulting in a remarkable increase in agricultural output, some of which is now being exported. The foreign exchange thus saved was used to finance the purchase of home electrical appliances, motorcycles and other consumer goods. The rapid development of the national economy enables the state to export. At the same time, a rising living standard and an increase in consumer purchasing power also spur imports. This pattern will continue in the future.

There are a number of points about Chinese-Japanese trade last year which are worthy of attention. According to Japanese customs statistics, Japanese exports to China in 1984 were valued at 1,720.8 billion Yen (up 47.4 percent over 1983), while Japanese imports from China stood at 1,411.2 billion Yen (up 16.7 percent over 1983). The 47.4 percent increase in Japanese exports should be considered abnormal.

The steep increase in Japanese exports was due to an upsurge in the sale of Japanese electrical machinery products, home appliances, steel and so on. Electrical machinery exports expanded 215 percent over 1983, while exports of

radios, color TV sets and black/white TV sets all rose an unprecedented 19-fold over 1983. The increase in color TV set exports was the most spectacular, whether in terms of volume or value. A breakdown of transportation hardware shows an astonishing 100-fold increase in motorcycle exports. The rates of increase for buses, limosines and trucks were 19-fold, 15-fold and 8-fold respectively. In the area of steel, shape exports and seamless steel tube exports grew by 98 and 57 percent respectively. Both rates exceeded last year's.

This year, however, China has adopted stringent foreign exchange control measures. Negotiations on the export of home appliances have almost ground to a halt after May and there has been a drastic drop in car import negotiations as well. My judgment is that the import of goods already contracted for will continue to grow. After October, however, there will be a precipitous decline in imports. From year end through next spring, Chinese imports will remain stagnant.

Both sides are responsible for the erratic course of Chinese-Japanese trade. China now seems to be considering the formulation of a stable trade policy. Japan, for its part, is trying to curb its overly aggressive salesmanship.

The Chinese government has approved the report on restructuring the foreign trade system prepared last fall by the Ministry of Foreign Economic Relations and Trade. The report points out that at a time when the entire economic system is engulfed in a wave of reform, the foreign trade sector should also carry out a number of important reforms. Among them a notable one is giving local governments extensive power to attract foreign capital and modernize existing enterprises, and defining the limits within which they can import technology and equipment and the amounts of foreign exchange they can spend. The foreign trade plan also reduces the number of priority commodities under centralized state control.

The foreign trade system should be restructured, but I do not think China should rush headlong into reform or insist on its universal application.

We should carefully analyze beforehand the possible consequences of reform. The actual implementation should be planned and cautious.

The car reselling incident on Hainan Island provides much food for thought for both China and Japan. Hainan Island, designated as an economic development area, imported from Japan a large number of cars and resold them at huge profits to the interior. This is extremely unfortunate. At the same time, the Japanese companies which received the orders were also responsible. They should have realized that under no circumstances could Hainan need so many cars for its own use.

It is hoped that China will take a more cautious approach in adjusting its trade policy. It took bilateral efforts for Chinese-Japanese trade to have reached the present scale. Both of us should protect it.

Japan is very concerned about Chinese moves to modify its policy regarding special economic zones [SEZ] and economic development zones [EDZ]. In early

July, State Councillor Gu Mu [6253 3668], who is in charge of the open door policy, said, "We are in the process of adjusting the development plan on SEZ's and opened cities." In Spring, 1984, China opened 14 coastal cities. Mr Gu Mu pointed out, "Priority will be given to Dalian, Tianjin, Shanghai and Guangzhou. The other 10 cities will be developed at a later date." According to reports from Hong Kong, the Chinese government has decided to slash this year's infrastructural investments in Shenzhen by 36 percent. Since the development of SEZ's and EDZ's is closely related to any expansion in Chinese-Japanese trade, relevant circles in Japan are very anxious about changes in China's SEZ and EDZ policies.

Some Japanese are worried that the Dalian EDZ, now under construction, may be affected. Dalian is geographically close to Japan and has relatively deep historical ties with us. Circumstances permitting, Japan is ready to set up joint ventures and cooperative enterprises in partnership with Dalian.

The construction of the Dalian EDZ (in and around Dagushanmaqiaozi Village in Jin County) has begun. Phase 1 of the project, which covers an area of 3 sq km, is scheduled for completion next year. At Zhoushuizi Airport, currently being overhauled, the runway is partly finished. Also proceeding apace are improvements in telecommunications facilities and the construction of a power station. In addition, Dalian plans to build a harbor with 50 berths at Dajiao Bay. We hope that China will clarify whether these development plans will be revised or changed.

Another problem in Chinese-Japanese trade is imbalance. China's export and import targets for the last year in the Sixth 5-Year Plan are \$27 billion and \$30.4 billion respectively, for a deficit of \$3.4 billion, part of which must be financed by non-trade earnings. But China's deficit with Japan alone reaches and may even exceed the projected deficit. This situation must be prevented.

Meeting with a RENMIN RIBAO delegation last May, Prime Minister Nakasone referred to the imbalance in Chinese-Japanese trade and said, "I am prepared to work hard to correct this imbalance. But in order to help China achieve modernization, Japan's equipment exports are increasing at the moment. Hence the lopsided tendency may perhaps persist."

To expand Chinese exports to Japan, both sides have to do a lot of work. As far as Japan is concerned, it should open up its market, an area where definite progress has been made recently. Japan has lowered its tariffs, including a 4 percent drop in tariffs on Chinese water chestnuts and walnuts. But stringent restrictions on the entry of Chinese raw silk and silk fabrics remain. The Japanese market needs to be further opened to let in more Chinese goods.

We also hope that the Chinese will make some efforts. Japanese businessmen think that the quality of Chinese products is inconsistent and their availability unsteady. Similar problems exist with regard to prices. As I see it, supply stability is a key to expanding Chinese exports.

Then there are problems with China's infrastructure. When there is a shortage of ports capable of handling large vessels, one cannot take the goods out even if one wants to buy them.

It can be said that Chinese-Japanese trade is naturally complementary. Japan is a developed, industrialized nation which lacks natural resources. China is a rich supplier of natural resources and primary products as well as a developing nation with a relatively strong light industrial sector. Japan buys from China a variety of primary products such as crude oil, coal, soya bean and cotton. China, which is capable of exporting a wide array of products, is an indispensable trading partner to Japan, in the long run. As for China, it must import an increasing amount of machinery and equipment from Japan in order to achieve modernization.

Also, China and Japan are neighbors separated by a strip of water. China's major exports are primary products, which are relatively inexpensive to transport. This too is a decisive factor.

The existing friendly relationship between China and Japan is unprecedented. The two governments are also carrying out capital cooperation. This is why I believe the trade imbalance between China and Japan this year and last should be solved as soon as possible. Toward that end, both countries should provide appropriate conditions and engage in frank and sincere consultations. The objective environment is much better now than several years ago, so I believe this problem can certainly be solved.

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CSO: 4006/192

LABOR AND WAGES

WAGE INCREASES SLOWING; SUBSIDY AND BONUS PAYMENTS QUICKEN

Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 19 Aug 85 p 1

[Article by Chou Xuezhong [0092 1331 1813]: "State Statistical Bureau Data Indicate Slight Decline in Total Wages Growth During First Half of Year. Need Continues For Stronger Control Over Bonuses and Subsidies"]

[Text] This reporter has learned from the State Statistical Bureau that during the first half of 1985 there was a slight decline in the increase in total wages of employees for China as a whole; bonuses and subsidies, however, continued to grow too fast.

Total wages paid to employees nationwide during the first half of 1985 amounted to 57.2 billion yuan, a 9.36 billion yuan or 19.6 percent increase over the same period in 1984, which was slightly less than the 21.3 percent increase realized over the same period last year. Of the 9.36 billion yuan increase, 1.4 billion yuan or 15 percent was attributable to wages paid to new employees; 3.11 billion yuan or 33 percent, to increases in bonuses or premium wages on piece rate; 2.6 billion or 28 percent to increases in subsidy payments of various kinds; and 2.2 billion yuan or 24 percent, to increases resulting from a simplification and merging of wage standards and reform of self-paid wages.

The rate of increase in bonuses and subsidies has nonetheless remained too fast. During the first half of the year, bonus payments nationwide (including premium wages on piece rate) amounted to 8.13 billion yuan, or 3.11 billion yuan or 62 percent over the same period in 1984. The difference between the two figures is due to the fact that during the first half of 1984, many enterprises were raising funds in order to adjust their wages. They were relatively strict in issuing bonuses and relatively conservative in setting base figures. Another reason for the increase over last year is that many enterprises issued bonuses recklessly during the first quarter of this year".

In addition, subsidies issued by many areas and units increased markedly. Statistics from 39 key cities show subsidies by state-owned units during the first half of the year to have averaged 74 yuan per capita, an increase of more than 40 percent over the same period in 1984.

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CSO:4006/208

LABOR AND WAGES

TRADE UNION ROLE UPGRADED IN LIAONING PROVINCE

Beijing GONGREN RIBAO in Chinese 3 Oct 85 p 1

[Article by Sun Weiben [1327 4850 2609], Deputy Secretary, Liaoning Provincial CPC Committee: "Trade Union Work Is Important Work in the Party"]

[Text] Trade union work is an important integral part of the work of the Party, and the trade union organization is the hub that closely binds the Party to the masses. It is a powerful assistant to the Party. A look at the workers movement in Liaoning Province and the current situation in trade union work in recent years shows the trade union organization to be a genuinely powerful force for the realization of the Party's political lines, and that it performs a unique role such as no other organization can perform in social and national life and in the four modernizations. Especially in the work of city trade unions, there are many aspects of Party programs and policies that have to be carried out by the trade union organization for translation into conscious action by the rank and file of staff members and workers. Since the beginning of reform of the economic system focusing on cities, in particular, urban trade unions have played a further role in mobilizing and organizing the vast numbers of employees to support reform, to participate in reform and to devote energies to making suggestions for reform. Strengthening of democratic management in enterprises both embodies the position of the rank and file of employees as masters in their own house and guarantees the authority of plant managers in providing unified direction resulting in full use of the inherent enthusiasm, initiative and creativity of both leaders and the rank and file of employees in enterprises thereby greatly bolstering the enterprise's vitality and steadily increasing its economic effectiveness. In the building of spiritual civilization, the trade union organization has launched wide ranging education in being the master of one's own affairs, education in ideals, education about discipline, education about traditions and education about the legal system centering around communist ideology, as well as a "five concerns, four beauties and three cherishes" campaign, a book reading campaign to stimulate the advance of China, a campaign for mutual help with ideology, a recreational and sports campaign, etc. These activities have played an active role in heightening the "four have's" [sic] in the ranks of employees. A large

body of facts shows that the position of trade unions cannot be ignored, and the role of trade unions cannot be looked down on. In recent years, the Liaoning CPC Committee has treated the work of trade unions as an important part of the work of the Party. It has devoted attention to improving and strengthening trade union leadership and to allowing all levels of the trade union organization to assume active and independent responsibility for work performance. We have devoted attention mostly to work in the following regards:

1. Regular discussion and study of trade union work. At least once each year, the Liaoning Provincial CPC Committee systematically listens to and discusses reports on trade union work, and at least twice each year, municipal CPC committees systematically listen to and discuss reports on trade union work. In the annual assignment, inspection and summarization of work, CPC committees at all levels simultaneously assign, inspect and summarize trade union work. When they encounter important matters, they arrange at once for discussion and study. Lower level CPC committees have to place on their daily agenda of important things to do the various tasks from trade unions at higher levels in just the same way as the tasks received from CPC committees at higher levels, and they have to plan and organize properly to carry them out. Municipal CPC committees in Liaoning Province convened special meetings to hear reports on the 14 March directive from the Central Secretariat, on the spirit of the 10th Chinese Trade Union Congress and on trade union work in urban reform, and they made this directive, spirit and assignments a part of their overall Party work to be carried out. In 1984, the Provincial CPC Committee held a special conference of workers, youths and women, which made decisions on the strengthening of Party leadership of workers, youths and women.

2. Assignment of vigorous cadres to trade unions. One important aspect of the strengthening of Party leadership of trade unions is bolstering the building of the trade union organization and assignment to it of cadres who meet the standards of the "four modernizations" so that trade unions will not become dumping grounds for old, weak, sickly and handicapped cadres. The Provincial CPC Committee Organization Department and the Provincial Trade Union Headquarters jointly prepared regulations on cooperative management of cadres; they twice issued documents that put forward specific requirements pertaining to the assignment to positions as deputies in the Party and government of grassroots trade union chairmen. During 1984, the Provincial CPC Committee also provided explicitly in its decisions on leadership of worker, youth and women's work that "the chairman of trade unions in entrepreneurial units should be assigned and administered with the rank of a deputy in Party and government, and should participate in the CPC committee at the same level. Provisions should be made for municipal and county trade union chairmen to be members of the local CPC Committee Standing Committee." Now the chairman of the Provincial General Trade Union is a member of the Provincial CPC Committee Standing Committee. The municipal trade union chairmen in eight of 13 cities in the province are members of the standing committee of the municipal CPC committee. In more than 90 percent of large and medium size enterprises, the trade union chairman holds a position as deputy plant manager. In view of the nature of trade union work, in its selection and assignment of trade union cadres, the Liaoning Provincial CPC Committee Standing Committee has stressed the assignment to trade union leadership teams at all levels of outstanding

cadres in the prime of life who are enthusiastic about work among the masses, who are closely tied to the masses, who can work patiently while bearing hardships, and who are enthusiastic about serving the masses. During 1984, more than 2,000 superior trade union workers were selected from throughout the province, and another 29 city, county and grassroots trade union cadres were selected as provincial and municipal level model workers. This had never been done in the past.

3. Allowing trade unions to participate widely in social activities and national life. Trade unions are important representatives of the rank and file of employees, and trade unions should be made a part of various social and national activities. They could give widespread expression to the will, desires and demands of employees, thereby providing a greater mass basis to the tasks and actions called for by programs and policies formulated by the Party and government. This would also help the trade unions understand programs and policies for better mobilization and organization of the rank and file of employees for completion of all work tasks. Therefore, trade units should be allowed to participate in whatever they should be a part of. For example, restructuring of enterprises, urban reform, wage reform, carrying out of policies relating to intellectuals, indoctrination of employees and such organizational leadership work have been participated in by trade unions. We have conscientiously dealt with trade union investigation reports, the views that trade unions have expressed, and the recommendations they have made in these regards. We approved and forwarded those that should have been approved and forwarded; adopted those that should have been adopted; and studied those requiring study.

4. Permit trade unions to be independently responsible for carrying out jobs. Trade unions are political bodies that have their own organizational system from top to bottom that is distinct from administrative sections and offices in enterprises. Consequently, Party leadership of trade unions, principally ideological and political leadership and programs and policies leadership, cannot monopolize everything, the party taking the place of the masses. At the same time, however, neither can the Party abandon leadership and wash its hands of responsibility. The Liaoning Province CPC Committee devotes its efforts to the following matters in the course of day-to-day work. One is to offer suggestions on major government policies; another is to participate in major trade union activities; another is to help solve specific problems; and yet another is to help them speak for and act on behalf of employees. For example, when an important issue has a bearing on the trade union, leading comrades from the Provincial CPC Committee personally call on the trade union chairman, Chen Suzhi [7115 4790 5347]. When the trade union runs an important campaign, leading comrades from the Provincial CPC Committee participate to the full. In carrying out their work, the problems that mass organizations confront, particularly with regard to work conditions, pay and emoluments, may be somewhat greater than in other organizations. The Party organization has to give greater consideration to these matters and help iron out and resolve them.

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CSO:4006/208

TRANSPORTATION

PROBLEMS IN STRATEGY OF HIGHWAY DEVELOPMENT OUTLINED

Beijing GONGLU [HIGHWAYS] in Chinese No 8, 25 Aug 85 pp 7-11

[Article by Yin Zuochao [3009 0155 6389] and An Qilin [1344 2475 2651]:
"Exploring Some Problems in China's Highway Development Strategy"]

[Text] Three issues of general concern when studying highway development strategy are transportation capacity, the size of the highway network, and construction funds. These problems have many ramifications and are fairly complex, so we want to express some thoughts on them and provide instruction in the process.

1. The Question of the Level of Development of Highway Transportation Capacity

To what level will China's highway transportation capacity develop in this century? Numerous units and professions inside and outside the transportation system have studied this question for several years, and it boils down to two points. One point is whether the speed of increase in highway transportation capacity should be greater than or less than the speed of growth of the national economy. The other point is how large the transportation capacity should be. Except for the volume of freight transportation on which the views of all quarters are fairly close, there is a wide divergence of views on other matters such as the volume of freight turnover, volume of passenger transportation, and volume of passenger turnover.

Our view is that numerous factors have a bearing on transportation volume, and their relationship to each other is a complex one. Generally speaking, the following several factors are involved:

(1) Socio-economic development. That socio-economic development gives rise to demand for freight transportation and an increase in the movement of people is extremely obvious. Socio-economic development also gives rise to changes in the structure of transportation. In the process of socio-economic development in many countries, among all the various forms of transportation, it has been highway transportation that has carried a gradually increasing proportion of passengers and freight.

(2) Level of development of the motor vehicle and petroleum industries. That highway transportation requires support from the motor vehicle industry is

obvious. To satisfy all of society's needs for highway passenger and freight transportation, the motor vehicle industry has to provide a mix of large, medium and small passenger and freight vehicles, and the petroleum industry has to provide sufficient fuel. Otherwise, highway transportation requirements will remain in a restricted state, and increase in the volume of highway transportation will also be adversely affected.

(3) Scale of highway transportation network. This includes highway quality and highway network density.

(4) The guiding thought in planning. Though the development of highway transportation is determined largely by overall socio-economic development; nevertheless, the guiding thought in the preparation of national plans still wields very great influence. An example is the speed with which readjustments are made to an irrational transportation structure. When there are differences in the transportation make-up and different transportation price policies, the volume of highway transportation will differ. Another example is that for small motor vehicles, the adoption of policies that develop or restrict to different degrees also has a very great bearing on the volume of highway traffic and the volume of passengers carried by highways.

Of all the foregoing factors, it is socio-economic development that is the leading one influencing growth of highway transportation. The level of development of the whole society and economy, the size of the highway network, and the level of development of the motor vehicle industry and the petroleum industry are mutually reinforcing and mutually restrictive. The guiding thought in the development of highway transportation is, therefore, related to overall socio-economic development. People's understanding of the development of transportation in general and their understanding of the position and role of highway transportation in transportation frequently deepens steadily with socio-economic development.

On the basis of the trend of China's socio-economic development, it is predicted that before the end of this century, the volume of passengers and freight hauled by highways will continue to increase. Economic factors bearing on increase in the volume of highway transportation are numerous, but the most fundamental one is the strategic goal of quadrupling the 1980 gross output value of industry and agriculture in China by the end of the present century. This is a factor common to increase in the volume hauled by all forms of transportation. There are some factors that will lead to highway transportation growing more rapidly than other forms of transportation, and they are generally as follows:

First, socialized large scale production requires specialization to an increasingly higher degree, increasing coordination among enterprises, increasingly complex processing, and a higher number of processing steps for products; product replacement and updating cycles shorten; the proportion of high grade, precision and advanced industrial products increases and requirements become more rigorous with regard to cargo damage and the time required for capital to turn over. This permits highway transportation to take advantage of being dispersed, maneuverable and flexible, having many points

over a wide area, delivering on time, not having to load and unload frequently, doing little damage to cargoes and providing door to door service.

Second, with the development of rural villages from a semi-self sufficient economy to a commodity economy, and development from an undiversified economy in which grain production is paramount to a diversified economy in which township and town enterprises and all sorts of specialized households have risen, the whole economic structure of rural villages has already and will continue to undergo radical changes. The building of houses and other construction in rural villages is on the rise. Because they can penetrate into farflung rural villages, highways alone are able to carry out important transportation tasks.

Third, the advantage that highway transportation offers is in medium and short haul transportation. In the process of adjusting the transportation structure, highway transportation will gradually take on the major task of medium and short distance passenger and freight transportation. In places where railroad transportation is not well developed and water transportation is non-existent, highways will be an even more important mode of transportation.

Fourth, it is anticipated that highway passenger transportation will maintain momentum toward fairly great increase. Medium and short distance travel is a substantial proportion of the volume of passenger transportation and suited to the development of highway transportation. In the country's farflung rural villages, highway transportation is even more the main mode of passenger transportation.

In recent years many units and specialists inside and outside the transportation system have made numerous analyses of factors affecting increase in the volume of highway traffic, and they have proposed many values for predicting highway traffic volume. In a nutshell, there are high, medium and low proposals. The summary values of the three proposals are as shown in Table 1.

Table 1. Prediction Values For Volume of Highway Transportation in 2000

Item	Units	1980	2000		
			Low Proposal	Medium Proposal	High Proposal
Freight Volume	100 million tons	38.2 (37.2)*	115	140	165
Freight Turnover	100 million ton kms.	764 (1086)*	4000	7500	9200
Passenger Volume	100 million persons	22.28 (26.27)**	133	290	400
Passenger Turnover	100 million passenger kms.	729 (874)**	4400	8900	11000

Note: Actual figures for 1980 are from the State Statistical Bureau. Numbers in parentheses marked with * include extrapolated values for volume of freight hauled by tractors on rural highways. Since State Statistical Bureau survey of average transportation distances for non-Ministry of Communications motor vehicles are small, the volume of freight hauled seems overly large; on the contrary, they are greater than the extrapolated values for the amount of expansion. Figures marked with ** are the expanded extrapolated volume of traffic including small passenger vehicles and non-Ministry of Communications large passenger vehicles.

In the foregoing low proposal on traffic volume, inasmuch as the limiting factors on development of highway transportation are somewhat more numerous, speed of increase is relatively small. Speed of growth of freight traffic volume is lower than speed of growth of the national economy, and though speed of growth of passenger transportation volume and passenger turnover volume are somewhat higher than the speed of growth of the national economy; nevertheless, in comparison with the coefficient of elasticity for volume of highway traffic in some countries in the world with a similar economic level (figured in terms of per capita gross national product), it is much smaller. When the need for improvement is viewed in terms of the trend of development of the commodity economy, and in terms of the changed situation in far-flung rural economies, it will be difficult for the traffic volume of the low proposal to satisfy needs for commodity production and circulation, and hard to satisfy needs for passenger transportation. Rural passenger and freight traffic, in particular, may very well become in short supply and unsuitable.

Looked at in terms of requirements for development of the national economy, and particularly from the standpoint of the trend of development of the commodity economy and from the standpoint of both changes in the expanded rural economic structure and the scale of rural construction, volume of highway traffic will reach that provided for in the medium proposal or even in the high proposal. The high proposal makes predictions on the basis of gross output value of industry and agriculture as interrelated with the volume of traffic. It also performs tests using the general trend of coefficients of elasticity for various countries at a corresponding economic level, focusing on the maximum required volume. In recent years, the volume of highway freight turnover for the country as a whole has averaged an annual growth of approximately 10 percent; passenger turnover volume has averaged an approximate 16 percent growth. Civilian motor vehicle volume has averaged an annual 30 percent growth, and rural tractors have increased at an average of approximately 37 percent annually, demonstrating the effects on highway traffic of the development of commodity production and changes in the rural economic structure. One may expect that these influencing elements will continue to exist for a long time to come. In the high and medium proposals, the volume of traffic in the high proposal is better able to satisfy needs for development of the national economy. The crux in satisfying transportation needs lies in being able to overcome limiting factors to the maximum extent possible. In view of the various factors limiting highway expansion, possibilities for realizing the medium proposal seem somewhat greater. This is an estimate of traffic volume based on study of both needs and what can be realized.

2. The Question of the Scale of Development of China's Highway Network

Limited funds and construction forces require that the relationship between new highway construction and improvements be explored first.

A look at progress in the building of the economy of China and of foreign countries shows the tendency of highway traffic becoming gradually concentrated on trunk highways. The volume of traffic carried by China's trunk highways amounts to from 64 to 68 percent of the total volume of traffic carried by all highways in the country. The average volume of traffic on trunk highways is also greater than that carried by rural roads. It is anticipated that by 2000, the average volume of traffic on national highways as a ratio of the average volume of traffic on the national highway network will increase from the 2.92 of 1980 to 3.75. Traffic volume on provincial highways will also rise, while the ratio on rural roads will decline. On many trunk highways today, the volume of traffic already exceeds designed capacity, and as the economy develops the pressure on trunk highways will become increasingly great. Consequently during the next 15 years the emphasis in highway construction should be on the technical upgrading of trunk highways.

Technical upgrading of the trunk highway network will mean marked improvement in economic results that can tremendously lower transportation costs. When the ratio of high grade highways is large, transportation capacity of the entire road network will also be greater over the same length of motorable highways throughout the country, and average transportation costs for society as a whole will correspondingly decline.

Nonetheless, one must also realize that the length of China's motorable highways is too small. There is only 0.1 kilometer of highways per square kilometer, and there is only 0.64 meters of highway per mu of cultivated land. Ten percent of all townships and 36 percent of villages are entirely without highways. This state of affairs greatly restricts rural economic development. Therefore, at the same time as highways are being technically improved, lengthening of rural highways should not be overlooked.

Study of the amount of highway construction in some countries shows that highway distance per capita and gross national product per capita are related to per capita land use area. Were the two models of the USSR and eastern Europe and of the Americas and western Europe to be used, extrapolations on the basis of per capita land use in China and on estimated figures for population and the economy in 2000, China would have between 2.1 and 3.4 million kilometers of highways in 2000. However, since the present length of China's highways is very small and since financial resources for the construction of highways are insufficient, this figure will be difficult to reach.

High, medium and low scale plans have been drawn up for the development of a highway network in China by the end of this century. These plans have taken into account response to differences in transportation volume and traffic volume, the extent to which funds for highway construction can be found and

the construction forces available, plus availability of construction materials.

In the low scale plan, the motorable highway distance would be 1.2 million kilometers of which between 500 and 1,000 kilometers would be high speed highways, between 6,500 and 9,000 kilometers would be primary highways and between 40,000 and 60,000 kilometers would be secondary highways. There would be 300,000 kilometers of highways with high quality and secondary quality surfaces.

In the medium scale plan, the motorable highway distance would be 1.35 million kilometers, including 1,600 kilometers of high speed highways, 13,000 kilometers of primary highways and between 100,000 and 110,000 kilometers of secondary highways. There would be 400,000 kilometers, or a bit more, of high quality and secondary quality road surfaces.

In the high scale plan, the motorable highway distance would be 1.5 million kilometers including 2,200 kilometers of high speed highways, 20,000 kilometers of primary highways, and between 220,000 and 230,000 kilometers of secondary highways. There would be 500,000 kilometers, or a bit more, of high quality and secondary quality road surfaces.

In all three plans, technical upgrading of trunk highways would be paramount to increase their traffic bearing capacity from the 170 billion ton kilometers of 1980 to between 320 billion and 570 billion ton kilometers, with some secondary and tertiary highways (approximately 100,000 kilometers of these) being built. Auxiliary roads for slow moving vehicles would be built to solve the mixed traffic problem and increase highway carrying capacity for an increase in highway network density. Most of the newly constructed highways would be county and township highways, and most of them would be low grade highways. Highway construction would be uneven, the speed of construction in coastal areas and in economically developed areas being relatively faster.

Analysis shows high, medium and low scale highway plans as being able to bear different amounts of traffic, and marked differences in their technical and economic standards. All standards have been analyzed in terms of vehicle traffic standards for the whole society. Results of the analysis are shown in Table 2.

Table 2.

STANDARD	UNIT	1980	c		d		e	
			f	g	g	h	g	h
i	j	300	677	1138	1138	1258	1138	1258
		901	2609	4387	4465	4936	4619	5106
k		0.55	0.91	1.22	0.89	1.1	0.7	0.78
		1.04	0.80	1.3	0.98	1.15	0.77	0.85
l	m	29	33.1	31.1	37.1	36.4	42.2	41.4
		30	38.7	36.5	45.9	45.1	51	50

n	o	9.5	8.9	9.2	8.3	8.4	7.1	7.6
		9.3	8	8.3	7.25	7.35	6.2	6.7
p	q	192.3	175	184	159.1	161.6	142.2	144.6
		187.8	153	162	131.5	133.8	119.8	121.9

- Key: a) Standard
b) Units
c) Low scale plan highway network in year 2000
d) Medium scale plan highway network in year 2000
e) High scale plan highway network in year 2000
f) Low scale plan traffic volume
g) Medium scale plan traffic volume
h) High scale plan traffic volume
i) Highway network average traffic volume including: national highways
j) Vehicles per day
k) Highway network average congestion including: national highways
l) Highway network average speed including: national highways
m) Km/hr
n) Highway network average fuel consumption including :national highways
o) Liter/100 ton kms
p) Highway network average transportation cost including: national highways
q) Yuan/1,000 ton kms

The foregoing explains that the volume of highway traffic will reach that provided for in the medium and high plans. Thus, a highway network on the scale of the low plan will not be suitable.

Analysis of the standards shows construction of a highway network on the scale of the high plan will be able to satisfy the traffic needs of medium plan transportation volume, all technical and economic standards being fairly good and economic benefits outstanding. When the highway network carries a medium plan transportation volume, traffic flow will be basically even over the system with a certain amount of reserve capacity to carry a high plan volume of transportation that may occur. Moreover the amount of funds required for a network on the scale of the high plan would be substantial, and both the amount of highway construction materials and construction forces needed would also be very great, and reaching this goal would entail quite a few difficulties.

A highway constructed on a medium plan scale would be able to carry a fairly large volume of traffic, would fit in with increases in the volume of highway transportation, and good technical and economic standards for the highway network could still be estimated. Should a situation develop in which the volume of traffic exceeded the scale of the medium plan, it could be handled with effort. At the present time there are new sources of funds for highway construction, so possibilities are fairly good for the construction of highways on the scale of the medium plan.

It should be noted that during the Sixth 5-year Plan period, the scale of highway construction was less than desirable for the fundamental reason that highway construction funds were insufficient. Though the Seventh 5-year Plan has not been decided on, a look at initial planning shows the amount of highway construction as still being too little. Unless strenuous efforts are made to build a highway network during the Seventh 5-year Plan, by the year 2000 the size of the highway network may slip to that of the low plan or lower. At that time the highway network will have become overloaded; there will be traffic jams and frequent accidents; all technical and economic standards will have worsened, and losses will be tremendous.

3. The Problem of Highway Construction Funds

The key to realization of highway network development goals lies in construction funds. In accordance with the principle of level by level management and level by level construction, national highways will be built largely with national funds; and provincial highways will be funded by individual provinces, the state providing appropriate assistance, and some civilian labor. County and township highways will be built by counties and townships, construction being run by the people with financial assistance from the state, the people supplying the labor for the most part, the province providing appropriate financial assistance. On this basis, it is estimated that during this century the building of low, medium and high plan highway networks will require a state investment of 67.4 billion, 73 billion, and 159.9 billion yuan respectively, and provinces, municipalities and autonomous regions will contribute 84.5 billion 99.4 billion and 146.4 billion yuan respectively. In addition, labor with a substantial value will be paid by peasants for civilian run and state assisted projects and for contributions of civilian labor.

Calculations based on construction of the scale of the medium plan show an estimated state investment in the building of a highway network (meaning routes and bridges) will amount to between 14 and 20 percent of investment in communications, transportation, posts and telegraphs for this century. The ratio from 1953 through 1983 was 9 percent. To bring about a substantial change in the nation's highway network, as investment in communications and transportation as a percentage of national investment increases, an increase in the percentage of investment in highway construction will be necessary.

Historically, the portion of state investment in highway construction has been paid out of the national budget. This has included direct disbursement to the Ministry of Communications of funds for highway construction for border defense. Investment for other highways has been arranged for out of the funds for investment in capital construction that the state has disbursed to each province, the amount of each being extremely limited. Since 1983, the state has collected funds for key energy and communications projects through a 15 percent levy for road maintenance. This has reduced financial resources available for road construction. Now that the State Council has decided to change the situation in which state investment is less than the energy and communications funds collected for road maintenance fees, and to readjust the percentage of investment in highway construction, if payments are made, state investment in highway construction should increase. The State Council has also

decided that for highway construction to have a long-term, consistent source of income, all units and individuals that purchase motor vehicles, including government organizations and the armed forces, must pay a vehicle purchase surcharge of 10 percent for motor vehicles produced in China and 15 percent for vehicles imported from abroad. This will increase the highway construction funds available to the state. Funds provided by provinces, municipalities and autonomous regions come mostly from road maintenance fees, including expenditures taken from road maintenance fees for use in building trunk highways and to help with the construction of county and township highways. Recently the State Council decided suitable increases in standards for the collection of road maintenance fees so that investment funds available for highway construction in each province will increase. Effective in 1985, there is to be a financial control system that "designates kinds of taxes, sets receipts and disbursements and assigns work responsibility at all levels." Central government investment in capital construction and local overall investment in capital construction is to be according to set apportionments, local government being responsible for arranging highway capital construction. As a result of the development of the rural economy, the demand for transportation is extremely urgent; therefore, civilian running of highway matters may continue. Nonetheless, the scope of civilian labor devoted to construction and civilian construction with support from public funds must correspond to peasants' cash income and should not be expanded too much. In addition to the foregoing several sources of funds, highway construction requires a widening of channels and the mobilization of local government and other financial resources as well as either the pooling of funds or loans.

It is estimated that collection of the surcharge on motor vehicle purchases during this century will generate 29 billion yuan, and that funds for key energy and communications projects withheld from road maintenance fees will amount to approximately 31 billion yuan for a total of 60 billion yuan. This means a 13 billion yuan shortfall in the 73 billion yuan needed for the medium scale plan. An appropriate increase in state investment will be required over and above the state investment in highways for national defense. It is estimated that during the next 15 years, approximately 35 billion yuan of highway maintenance funds will be used for highway improvements, and that another 21 billion yuan of highway maintenance funds will be used to help county and township highways for a total of 56 billion yuan. This means a 43.4 billion yuan shortfall in the 99.4 billion yuan of funds pooled by provinces, municipalities and autonomous regions. This will have to be worked out through local government investment in capital construction and other financial resources as well as through the pooling of funds and loans. Once channels for highway construction funds have been broadened, state assistance to major provincial trunk lines and inter-province trunk lines may be proportionally increased as well.

Highways are one of the basic facilities on which the national economy depends for development and are in the nature of a social public utility. All trades and industries throughout the society will stand to gain from improvement of the highway network, and this should be given wide publicity so that national planning departments and local governments will not be loathe to invest funds in highway construction. This is the only way that substantial improvement can be made in the building of a highway network during this century.

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

LESSONS FROM ECONOMIC REFORM IN SOVIET UNION, EASTERN EUROPE

Xiamen XIAMEN DAXUE XUEBAO in Chinese No 1, 86 pp 11-16

[Article by Wang Luolin [3769 3157 2651]: "Learning from Economic Reform in the Soviet Union and Eastern Europe"]

[Text] After the war, the Soviet Union and countries in Eastern Europe all embarked on economic reform. Despite the differences in their methods, they moved in roughly the same direction and ran into similar problems and issues. Countries which follow the same economic model as theirs will do well to study and learn from some of their experience.

1. Commitment to Reform and the Pace of Reform

How committed a nation is to reform and whether or not it proceeds steadily have an immense impact on the effectiveness of reform.

A subjective explanation for the slow progress of reform in the Soviet Union and some countries in Eastern Europe is that faced with a barrage of obstacles, they retreated and invariably failed to commit themselves to total, thorough reform. Consequently, instead of launching a coherent reform program, they ended up tinkering with the system and making piecemeal changes. Furthermore, some countries merely decentralized certain power from the central government to the local authorities, without correspondingly expanding the power and responsibilities of enterprises in planning, materials supply, marketing and sales, etc. As a result, the government's overall responsibility for enterprises has remained intact. Such piecemeal reforms not only cannot dismantle the old management system but are also prone to sending everything back to square one.

It is certainly not easy to stay committed to reform, and even less easy to reform steadily. Reform is a postwar phenomenon for which no ready-made formulas can be found in the classics. Nor does a systematic and coherent reform experience exist in real life. While latecomers may consult the experience of pioneers, circumstances vary from country to country and every nation must explore on its own to find its own way. In the course of exploration, if a nation does not seize opportunities adroitly or underestimates potential difficulties, it may either plunge ahead with reckless haste or vacillate.

Examples also abound in the history of reform in the Soviet Union and Eastern Europe where commitment was not accompanied by steadiness of purpose. As economic difficulties multiplied, some countries rashly resorted to reform, thus depriving it of a reliable material and ideological basis from the beginning. Many cadres considered reform an expedient to save themselves from economic problems. Once the economy improved, many people lost their enthusiasm for reform and aborted it midway. Other countries might have launched their reform under more auspicious circumstances but tried to rush through a series of major reform measures within a short time. When the economic repercussions of these measures proved to be more than the nation could bear, they had no choice but to beat a retreat amid a chorus of criticisms. Instead of achieving anything, they only succeeded in dampening the initiative of the cadres and masses and prolonging the entire reform process.

Of course some nations did manage to stay committed to reform and proceed steadily over a long period of time, with remarkable results. They teach us these important lessons:

--Grasp reform opportunities without delay;

--Make full theoretical and material preparation before reform;

--Draw up a coherent reform program and carry out the measures in order of importance, not all at once;

--When reform runs into difficulty, resist the pressure from all quarters, not by simply falling back on administrative control, but by solving the problems with reform methods.

The fourth point above has a particular practical significance. As soon as they see the problems and mistakes that have emerged in the course of reform, some cadres jump to the conclusion that reform is not on the right track. The truth is that mistakes and deviations inevitably arise here and there during reform. The problem is how we tackle them. If we quit and slip back into the old rut of over-centralization and exclusive reliance on administrative mechanisms the moment problems appear, that will indeed be a sign that all is not well with reform. But if we persist in the direction of reform, solve problems with reform methods and correct mistakes and deviations, that would exactly be an important hallmark of a "steady as we go" approach.

2. Urban Economic Reform and Agricultural Reform

Urban economic reform and agricultural reform are related to and facilitate each other. But in essence and substance they also differ considerably.

In the Soviet Union and some Eastern European nations, economic reform is often spearheaded by agricultural reform, or at least begins by relaxing rural economic policies. This is because rural economic policies in the past had stifled the peasants' initiative and shackled rural development. Facts show

that agricultural reform in these nations has not only improved the state of agriculture, but also provided notable impetus to urban economic reform. The greater the success of agricultural reform, the stronger the impetus to urban economic reform, especially in economically backward nations where peasants make up a sizable portion of the total population.

On the other hand, we should also open our eyes to the fact that there is only so much agricultural reform can do to promote urban economic reform. Success in agricultural reform does not necessarily imply similar success in urban economic reform because the latter is a much more complex and arduous job and runs into stiffer resistance. The primary manifestations of its complexity and difficulty are:

(1) Urban factories and mines are the nation's lifeblood. Their profits constitute the major source of overall social accumulation and expanded reproduction. Urban economic reform, therefore, has a tremendous and direct impact on the nation's entire economic structure, proportional relations, growth rate, finance, banking, and living standards.

(2) Urban economic departments have created a relatively comprehensive, interwoven management system, which is what we essentially mean when we talk about the "Soviet model." It has its own special durability and inertia and cannot be easily changed.

(3) Factories, mines and other enterprises are predominantly owned by the state. To reform these state-owned enterprises is to tread directly on the functions and power of various government departments. Mixing the reform of the economic base with that of the superstructure makes for special complexity.

(4) Compared to peasants in the collective system, workers in the state-owned sector are more used to eating "from the common rice pot." Hence their resistance to any attempt to change the egalitarian distribution system is also greater.

For these reasons, there is no success story so far in comprehensive urban economic reform despite several nations' outstanding achievements in rural reform. It is thus clear that much more than agricultural reform, wholesale, thorough urban economic reform takes commitment, courage and caution.

3. Reform and the Distribution of the National Income

A key component of urban economic reform is the reform of the national income distribution system, in other words, putting an end to central control over the bulk of profits and expanding the autonomy of local governments and enterprises to distribute profits.

Judging from the experiences of the Soviet Union and countries in Eastern Europe, giving local governments and enterprises more say in the distribution of profits certainly helps to unleash their initiative, to the benefit of economic invigoration. However, if an overly large share of the profits are

put under local or enterprise control when banks have not been able to step up supervision, a train of negative results will follow.

Generally speaking, when local governments control an excessive portion of profits, they tend to make investments in an uncoordinated way, duplicate them, and overreach themselves. Or investments may get out of hand. When enterprises control too much profits, they show an objective inclination to emphasize consumption and neglect accumulation, even expanding consumption at the latter's expense. If the central government does not check these activities in time or does so halfheartedly, the result is severe over-investment and over-consumption, leading to over-distribution of the national income and worsening inflation. And once inflation exceeds what the nation can take, the government will be forced to adjust the entire national economy extensively, which will seriously interfere with the progress of reform.

Clearly the reform of the distribution of the national income has profound and wide-ranging effects. Its execution requires us to not only grasp quantitative proportions carefully, but also devise a new set of mechanisms to control investment and consumption. Although the Soviet Union and Eastern European nations have so far come up with no comprehensive and effective mechanisms, they have learned a few lessons through practice and posed a number of questions which must be addressed.

(1) How should we distribute profits among the central government, local authorities and enterprises to achieve a proper ratio?

Since conditions vary from country to country, and even within one country at different stages of economic development, it is certainly impossible to lay down a generally applicable ratio. But the experience of some nations shows that at the beginning of reform, particularly when the commodity economy is not highly developed and the extent of production socialization is limited, the central government must control more than 50 percent of total profits. Local governments' share should be smaller than that of enterprises.

The central government must control more than half the total profits mainly because only when it has ample funds at its disposal in the first stage of reform can it effectively control the macroeconomy with economic tools. In economically underdeveloped nations, in particular, the central government must concentrate an immense amount of funds in key projects in basic industries, the construction of the infrastructure and the development of backward areas. Only thus can it control the basic national economic proportional relations and gradually eliminate gross interregional imbalances.

The chief reason why local governments should have a smaller share than enterprises is that given a backward commodity economy and limited production socialization, allocating local governments too many funds creates the possibility of covert economic separatism which militates against the reasonable distribution of the entire national economy and may even affect political unity and stability.

(2) How should the financial system be reformed at the same time as local and enterprise control over profits is being augmented?

The decentralization of control over profits is inseparable from the decentralization of the financial system. As a substantial portion of profits is allocated to local governments and enterprises, control and supervision by public financial agencies is correspondingly weakened and, by the same token, the banks' supervisory function over economic activities becomes more conspicuous and crucial. The financial system therefore must be reformed as part of urban economic reform, but only to strengthen macroeconomic control over the national economy and enhance supervision over a whole range of economic activities, and not to weaken such control and supervision. The main point about financial reform is not decentralization but the more effective use of financial tools.

(3) How can we better motivate people and units who make most investment decisions to be economy-minded in the use of funds and improve economic efficiency?

To prevent an excess of investments, it is not enough just to intensify bank supervision from outside. We must also motivate the people and units in charge of investment to be economy-minded in the use of funds and improve economic efficiency. That is why economists in some nations why suggested legislation to hold people in charge of investments accountable for investment risks. Only such a step can break the habit of "eating from the common rice pot."

(4) How can we impel enterprise leaders to handle the relations between immediate gains and long-term interests properly?

After they are granted more autonomy, enterprises should overcome their bias in favor of consumption and against accumulation. The key question is whether or not enterprise leaders can withstand the pressure for unchecked consumption and properly manage the relations between special interests and the general interest, and between immediate gains and long-term interests. To motivate enterprise leaders to act that way, we must set up a proper hiring, selection, reward and penalty system. In some Eastern European nations, all enterprise leaders are recruited and hired by the enterprises and their remuneration depends directly on the enterprises' earnings. Elsewhere, enterprise leaders continue to be government-appointed even after enterprises were given more autonomy and their remuneration is fixed by the government centrally. In practice, these two systems each appear to have their own advantages and disadvantages. It seems that for a prolonged period of time, the leaders of medium-sized and large enterprises should continue to be determined by a combination of worker selection and government appointment. Their remuneration should also be fixed partly by government regulation and partly by enterprise earnings.

4. Reform And Growth Rate

The effectiveness of urban economic reform is bound to manifest itself in faster economic growth for the following reasons:

(1) Decentralization inevitably fires the initiative of localities and enterprises to step up investments.

(2) The result of reforming the labor wage system is to link together workers' personal basic interests and their enterprises' performance, inevitably boosting labor productivity.

(3) The adjustment of the economic structure ends the exclusive emphasis on heavy industry and enables light industry to make more rapid progress. Since light industry yields higher profits and has a quicker turnover, its rapid growth will certainly fuel the entire national economy before long.

As a matter of fact, every relatively wide-ranging and successful reform in the Soviet Union and some Eastern European nations has boosted national economic growth. Other nations did not reform across the board, limiting themselves instead to just one or two fairly significant reform measures. But they too saw their economies gather momentum presently. So there is absolutely no doubt that reform is a shot in the arm for the economy.

On the other hand, however, it should be noted that there were abnormal reasons as well behind the excessively speedy growth some nations experienced in the course of reform. The major irregularities were:

(1) In the early days of reform when rules and regulations had yet to be perfected, local governments and enterprises misused the investment authority delegated to them and expanded investments recklessly, particularly to develop processing industries. For a time, therefore, both the output value of capital projects and that of processing industries shot up excessively;

(2) Abusing the power decentralized to them to conduct foreign trade and use foreign exchange, local governments and enterprises unthinkingly imported technology, raw materials and fuels. Hence the "fast growth," paid for with foreign exchange, in some sectors and enterprises.

The kind of "fast growth" induced by these two abnormal factors cannot last and actually militates against the sustained and stable development of the national economy. Of the two, the first factor is less amenable to control and more dangerous. A shortsighted investment explosion, especially in processing industries, will lead to capital, raw material and fuel shortages, thereby setting the stage for a reassertion of control by the central government over the use and allocation of scarce resources. In the resultant belt-tightening climate, some power which should and can be decentralized is not granted to local governments and enterprises. Thus reform and development are hampered.

Herein lies an important lesson: While the emergence of brisk growth in the course of reform is certainly a gratifying and normal phenomenon, we must be on guard against irregular elements taking shelter behind a normal situation. In the initial stage of reform, in particular, we must control the growth rate of investments and processing industries to leave a little more funds and materials at the disposal of the central government. In so doing, we provide reform with a less constraining economic climate so that it can proceed

smoothly, on the one hand, and quickly remedy defects and close loopholes (both inevitable in the course of reform), on the other.

5. Reform and the Open Door Policy

Reform and the open door policy complement each other. Either one without the other will not work as expected. If one moves much faster or more slowly than the other, they will also get in each other's way.

Since it is after all easier to adopt an open door policy than to reform, there is a stronger tendency in the Soviet Union and Eastern European nations for the open door policy to advance more briskly than reform. If this tendency is not corrected in time, it will make a good deal of trouble:

First, since the open door policy is not accompanied by a corresponding move to reform the over-centralized management system, decisions pertaining to the import of foreign capital and technology are often concentrated in the hands of a few leaders in local governments and enterprises who frequently clinch a deal without thorough scientific verifications and research. In this way a quantity of technology and equipment not urgently needed by the national economy is irrationally and wastefully imported.

Second, in the course of opening the country to the world, no attention is paid to adjusting the economic structure promptly and controlling the ratio between basic industries and processing industries. As a result, most of the imported capital is attracted to processing industries where turnover is quick and profits high, thereby exacerbating the imbalance between the two kinds of industries. Faced with raw material and energy shortages, processing industries have no choice but to depend on imports if they are to maintain normal production, which, in turn, leads to an outflow of foreign exchange and a deficit in the international balance of payments.

Third, since no corresponding effort is made to reform enterprises internally, their management standards remain so low that they have difficulty absorbing and assimilating the imported advanced technology. The aims of technology import should be to raise product quality, enhance product competitiveness and increase exports. Yet because of their poor quality, their products can only be sold domestically, pitting them against other enterprises making similar merchandise.

In short, the open door policy inevitably incurs some costs. But we must minimize them and maximize its results. Toward that end, we must more or less synchronize reform with the open door policy; if the latter is too fast while the former is too slow, the latter's effects will be drastically undercut and the following bizarre scenario may occur: while little advanced technology and managerial experience are absorbed from capitalist nations, decadent capitalist stuff does manage to find its way into the country and is crossbred with maladies like eating "from the common rice pot," low efficiency and indolence, giving birth to monstrosities which are neither socialist nor capitalist. This will only ruin the good name of the open door policy and give an excuse to people opposed to it.

6. Reform and Economic Theory

Reform puts forward many new theoretical issues never touched upon by our predecessors. On the other hand, every breakthrough in theoretical research in turn inevitably provides reform with powerful guidance and impetus.

Over the past 3 decades, economists in the Soviet Union and Eastern Europe have conducted highly valuable research on a host of issues, such as ownership systems, planning and the market, the commodity economy and agricultural socialization, smashing the trammels of many ideas and enriching and elaborating socialist economic theories.

This reform-centered theoretical research, however, is also marked by two tendencies unfavorable to reform:

One tendency is that the theorists monopolize the right to interpret Marxist theories, deifying individual theses in the classics and the economic theory formed under a highly centralized management system. Many theoretical areas are declared off-limits. Whoever oversteps the limits or violate them during reform is regarded as a heretic who has deviated from Marxism. This erroneous tendency not only fetters the development of theoretical research but also seriously impedes the smooth conduct of reform.

The other tendency is to doubt, even abandon, the basic Marxist stand, viewpoint and method, claiming that Marxist economic theories cannot explain the new problems and issues which have appeared in the real world of economic life and preferring instead to seek answers among Western economic theories and to guide economic reform with Western theories and policies. If the first tendency shackles and impedes reform, then the latter leads reform astray. At a time when consumer goods were not plentiful, for instance, some nations preached "high consumption" to stimulate production, whetting people's consumption appetite without being able to come up with enough materials to satisfy demand. In the end, all they did was to fuel the expansion of consumption funds objectively and interfere with wage and price reform. Other experts echo John Maynard Keynes and advocate "appropriate" inflation and deficit budgeting to spur production. This proposal has already colored economic policy-making adversely.

The two misguided tendencies above are intrinsically related to each other: by restricting the development of Marxism for a long time and making it impossible for new issues and conditions to be interpreted by that doctrine, it is exactly the dogmatism and despotism in theoretical research which have led some people to doubt Marxism. Consequently, we should unchain ourselves from the bondage of dogmatism and use the Marxist stand, viewpoint, and method to review and explain new phenomena and issues which arise during reform, or shall we say, work hard to tackle new realities and master basic Marxist theories in order to enhance our ability to use basic Marxist tenets and method to examine and solve new economic problems. That way we advance Marxism as well as our cause and prevent ourselves from losing our way in an increasingly complex struggle in action. In my opinion, this is a critical and urgent mission facing people in economic work, both thinkers and doers, in socialist nations.

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